RED SHERPA

advisors for startups

TRUSTED LOYAL

THREE IDEAS WE WANTED TO TEST

1. **Startups evolve through discrete stages of development**. Each stage can be measured with specific milestones and thresholds.

2. **There are different types of startups**. Each type evolves through the developmental stages differently.

3. **Learning is a fundamental unit of progress for startups**. More learning should increase chances of success.

WHAT WE FOUND

1. **Startups move through similar thresholds and milestones of development**, which we segmented into stages. Startups that skip these stages perform worse.

2. **We identified three major types of startups** with various sub types. They are segmented on how they perform customer development and customer acquisition. Each type has varying behavior like time, skill, and money.

For a summary of additional findings, go to: www.sherpa.red/findings.html

The **startup lifecycle** is comprised of 6 stages of development:

1. Discovery
2. Validation
3. Efficiency
4. Scale
5. Profit Maximization
6. Renewal

Inception through Series-A

These stages correlate with traditional progress indicators.

Startups that do not move through these stages in order show less progress

Inception through Series-A

	Avg. Months Working	Avg. Funding Raised	Avg. # Employees	Avg. % User Growth in Last Month	Top Competitive Advantages	Top Challenges
Discovery	7	$227,000	1	6%	IP Technology	Customer Acquisition Over Capacity
Validation	11	$800,000	4	21%	Partners Insider Info	Customer Acquisition Product-Market Fit Problem-Solution Fit
Efficiency	17	$900,000	4	29%	Traction IP Insider Info	Customer Acquisition Team Building Fund Raising
Scale	25	$3,000,000	17	43%	IP Traction Technology	Customer Acquisition Team Building

	Avg. # of Pivots	Pivot Variance	Avg. Funding Raised at Scale Stage	Avg. # of Employees
Inconsistent Startups	1.6	5.0	$1,100,000	3
Consistent Startups	1.2	2.0	$3,400,000	20

Types & Characteristics of Internet Startups

1. **The Automizer**: self-service customer acquisition, consumer focused, product centric, fast execution, often automate a manual process
2. **The Social Transformer**: self-service customer acquisition, critical mass, runaway user growth, winner-takes-all markets, complex UX, network effects, typically create new ways for people to interact
3. **The Integrator**: lead generation with inside sales reps, high certainty, product centric, early monetization, SME focused, smaller markets, often take innovations from consumer Internet and rebuild it doe smaller enterprises
4. **The Challenger**: enterprise sales, high customer dependency, complex and rigid markets, repeatable sales processes

For detailed descriptions and examples of each type of Internet startup, please visit: www.sherpa.red/startuptypes.html

Internet startups are better categorized by their customer acquisition methods

COMPARISON OF INTERNET STARTUP TYES

	Automizer	Social Transformer	Integrator	Challenger
Average months to move through growth stages	21	32	16	64
Best type of founding team	Tech heavy team	Balanced team	Balanced team	Business heavy team
Market size estimation at scale stage	$11B	$13B	$7B	$65B
Average funds raised at scale stage	$600,000	$2,300,000	$700,000	$4,100,000
Average user growth in last month	14%	33%	11%	36%
Percentage of user base that pays	8%	10%	20%	27%

Founders must be willing and able to **pivot** based on customer feedback

THREE STAGES OF PIVOTING

Learning from best practice

Companies that follow startup leaders are 80% more likely to raise money. Almost all companies that raise money have successful mentors. Companies without helpful mentors almost always failed to raise funding.

Ability to listen to customer feedback

Companies that are tracking metrics average a monthly growth rate that is 7x that are not tracking metrics and are 60% more likely to raise funding than companies that don't track metrics.

Ability to act on feedback

Companies that fail to listen and act on feedback tend to scale without validating the size and interest of the market. These companies tend to either pivot 2 times or not at all. They also have a harder time raising money and growing a team.

The Growth Stages of an Internet Startup

1. **Discovery (5-7 months)**: Startups are focused on validating whether they are solving a meaningful problem and whether anyone would hypothetically be interested in their solution.

2. **Validation (3-5 months)**: Startups are looking to get early validation that people are interested in their product through the exchange of money or attention.

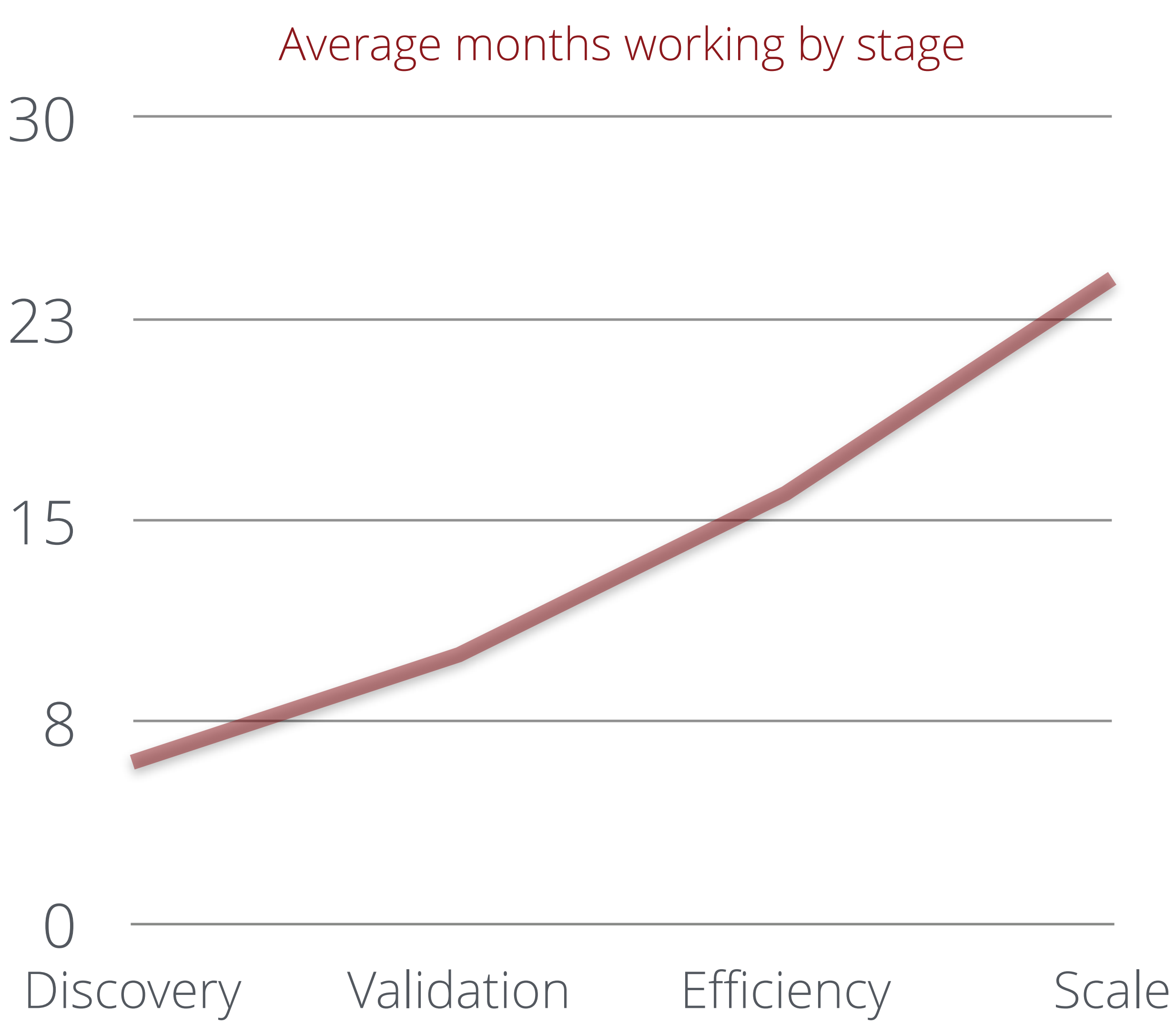
3. **Efficiency (5-6 months)**: Startups refine their business models and improve the efficiency of their customer acquisition process. Startups should be able to efficiently acquire customers in order to avoid scaling with a leaky bucket.

4. **Scale (7-9 months)**: Startups step on the gas pedal and try to drive growth very aggressively.

For detailed descriptions of each growth stage, please visit:
www.sherpa.red/growthstages.html

How much time do I spend in each stage?

THE TIME STARTUPS SPEND IN EACH PHASE **INCREASES MONOTONICALLY** AND IS **CONVEX**, INDICATING THAT **EACH STAGE IS HARDER TO COMPLETE** AND TAKES MORE TIME

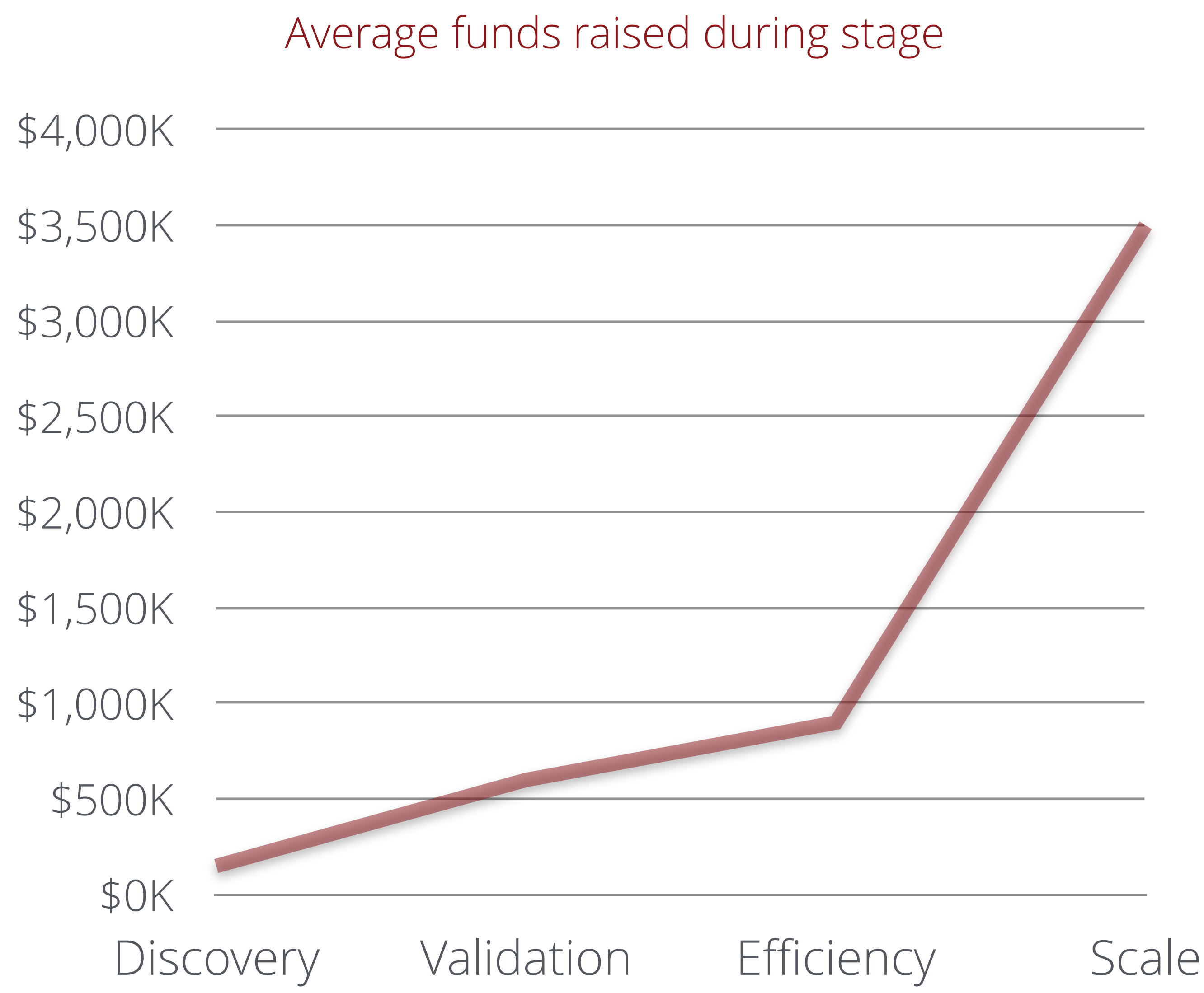


Key Takeaway:

The time a startup needs to move through the first stages is much longer than many first time founders expect. Many are deceived by the belief that they should be able to complete Stage-1 (Discovery) within just one month. Because it normally takes much longer, this creates pressure to jump stages, resulting in inconsistency.

How much money do I need to raise?

IT IS BETTER TO RAISE A LOT OF MONEY AFTER THE PRODUCT-FIT IS DETERMINED AND A COST EFFECTIVE CUSTOMER ACQUISITION PROCESS IS ACHIEVED



Recommended funding at each stage:

Stage-1: $10 - 50K

Stage-2: 100K - 1.5M depending on type

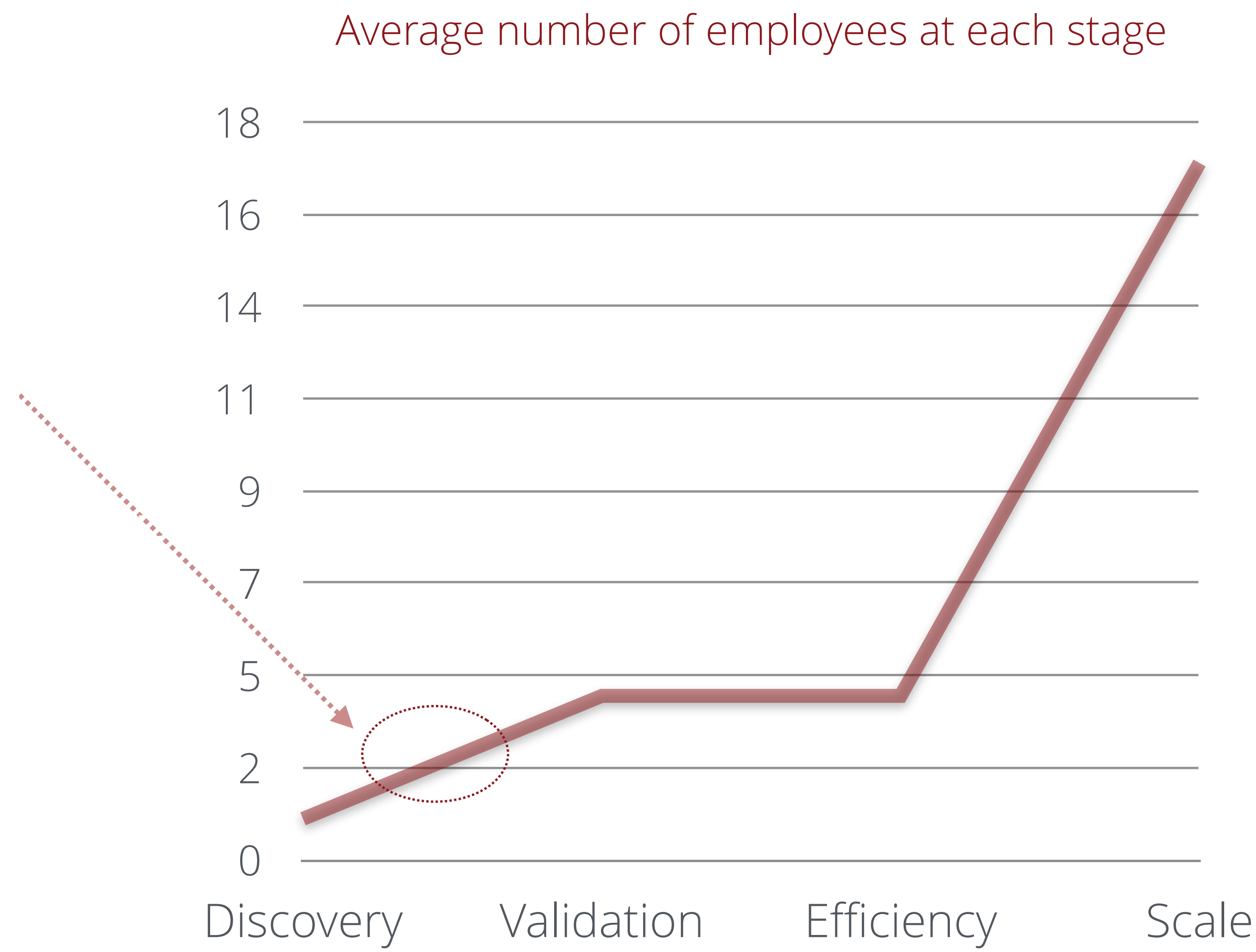
Stage-3: $0 (recommend waiting until Stage-4 raising)

Stage-4: 1.5 - 7M depending on type

What should my staffing plan look like?

DON'T WORRY ABOUT HIRES THAT WON'T BE PART OF THE CORE TEAM UNTIL THE SCALE STAGE

Getting the right combination of founders' / early employees' strengths during the Discovery and Validation stages is critical. These are **"can't miss"** hires.



What will my biggest challenges be?

1. **Customer acquisition is overwhelmingly the biggest challenge throughout the 4 stages.** Most startups fail due to a lack of customers. However, in stages 1-3 startups shouldn't be directly focused on customer acquisition. Challenges like problem-solution fit, product-market fit, and feature development are more actionable challenges that great the root cause of not having enough customers.

2. **Product-market fit spikes as a key challenge in the validation stage.**

3. **The challenges of team building and raising money increase in stages 1-3 but level off in stage-4.** Companies that successfully traverse stages 1-3 don't usually have difficulty raising money and hiring talent. Fundraising is a big challenge in the Efficiency stage because companies should not be looking to raise money.

4. In Validation, many startups feel like they have not found the problem-solution fit. These companies have a working product but have yet to figure out whether anyone wants it. Most of these startups will need to pivot back to Discovery when they get to Validation in stage-2.

How can Red Sherpa help my startup?

YOUR STARTUP MUST CLIMB MANY MOUNTAINS.
WE'LL HELP YOU SUMMIT THE FISRT ONE

Inception through Series-A