Module 2: Financial & Growth Modeling

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Core components of a growth framework

Pyramid diagram with three tiers from top to bottom:
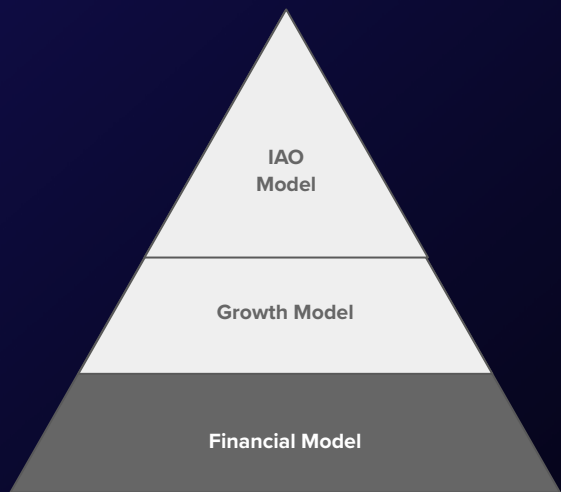- IAO Model
- Growth Model
- Financial Model
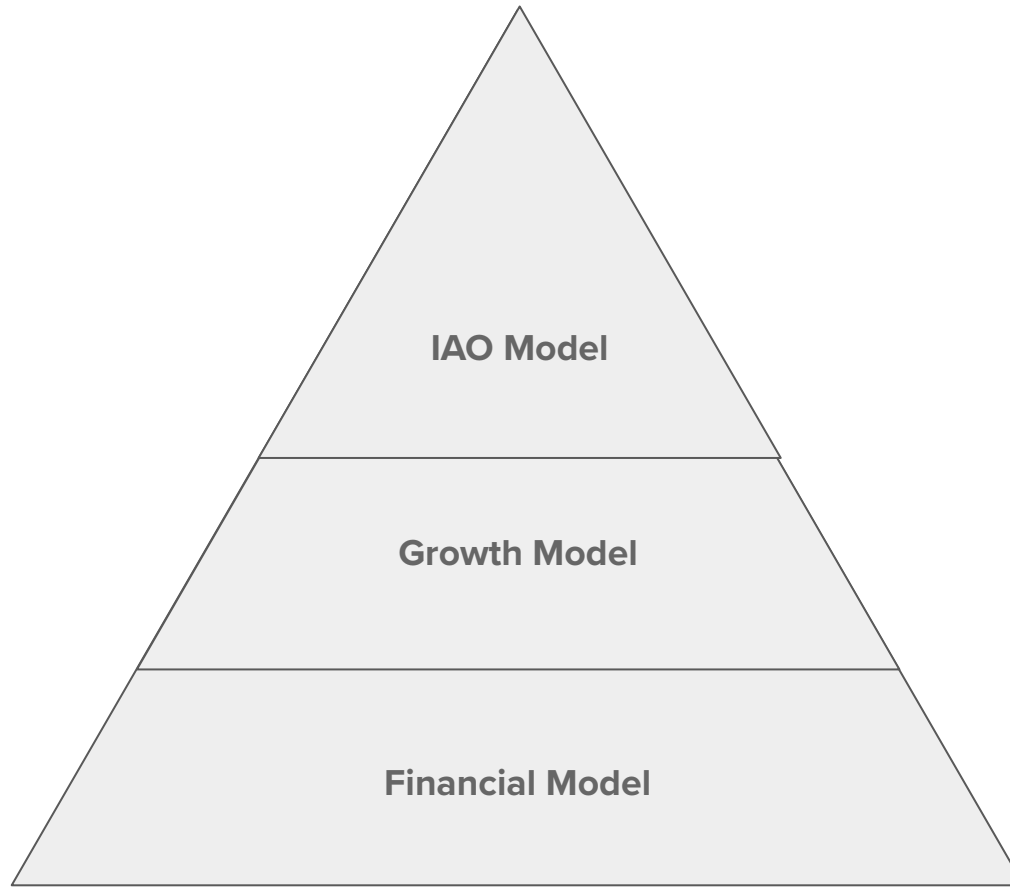
Growth Framework Overview

A growth framework includes 3 main components:

1. **Financial model**
2. **Growth model**
3. **IAO Model (Inputs, Actions, Outcomes)**

Velocity Growth

Financial model

IAO Model

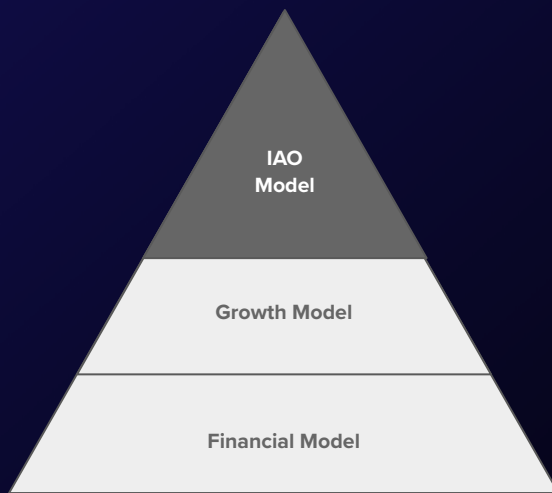Growth Model

Financial Model

The financial model enables us to quantify all growth efforts across the company. It's the foundational level of our growth framework.

Growth model
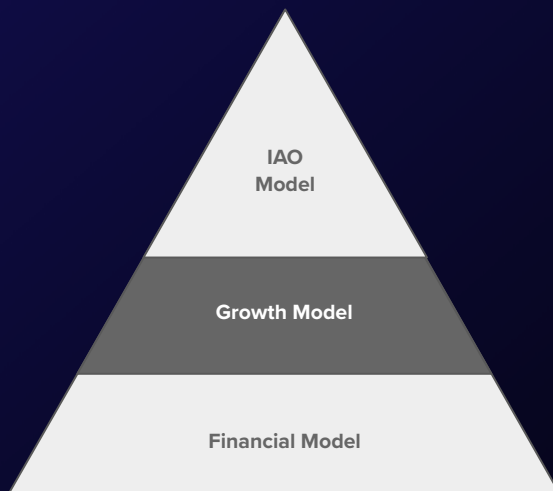
The growth model expands the financial model by adding in budget, CAC & growth rate. You'll look at this in week or month intervals.

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IAO Model - Inputs, Actions, Outcomes
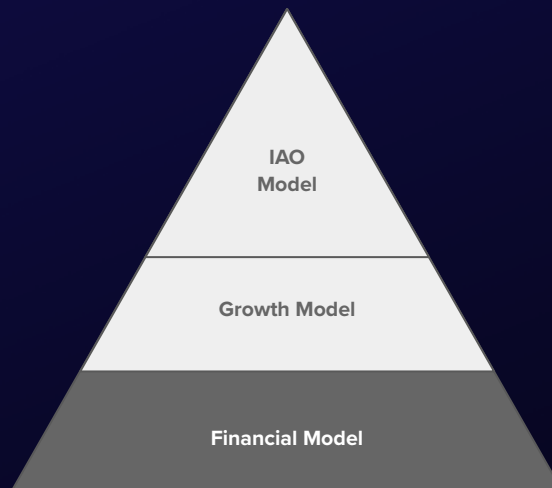
Your IAO model takes inputs, actions, and outputs that are the focus of day to day work.

This spans acquisition, activation, product development, and other considerations.

IAO Model

Growth Model

Financial Model

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Building your financial model

Pyramid diagram with three levels from top to bottom: IAO Model, Growth Model, Financial Model.

Why we build this first

The basis of your financial model is to provide an anchor by which to model your decisions off of.

By setting revenue targets early, you'll form the highest level goals that you work towards.

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Financial Modeling Steps

Every business needs revenue to survive. Here we will model the 4 components of the financial model:

1. Building a narrative
2. Revenue mapping
3. Unit economics
4. Targets

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Financial Modeling

Targets — 4

Unit Economics — 3

Revenue Mapping — 2

Narrative — 1
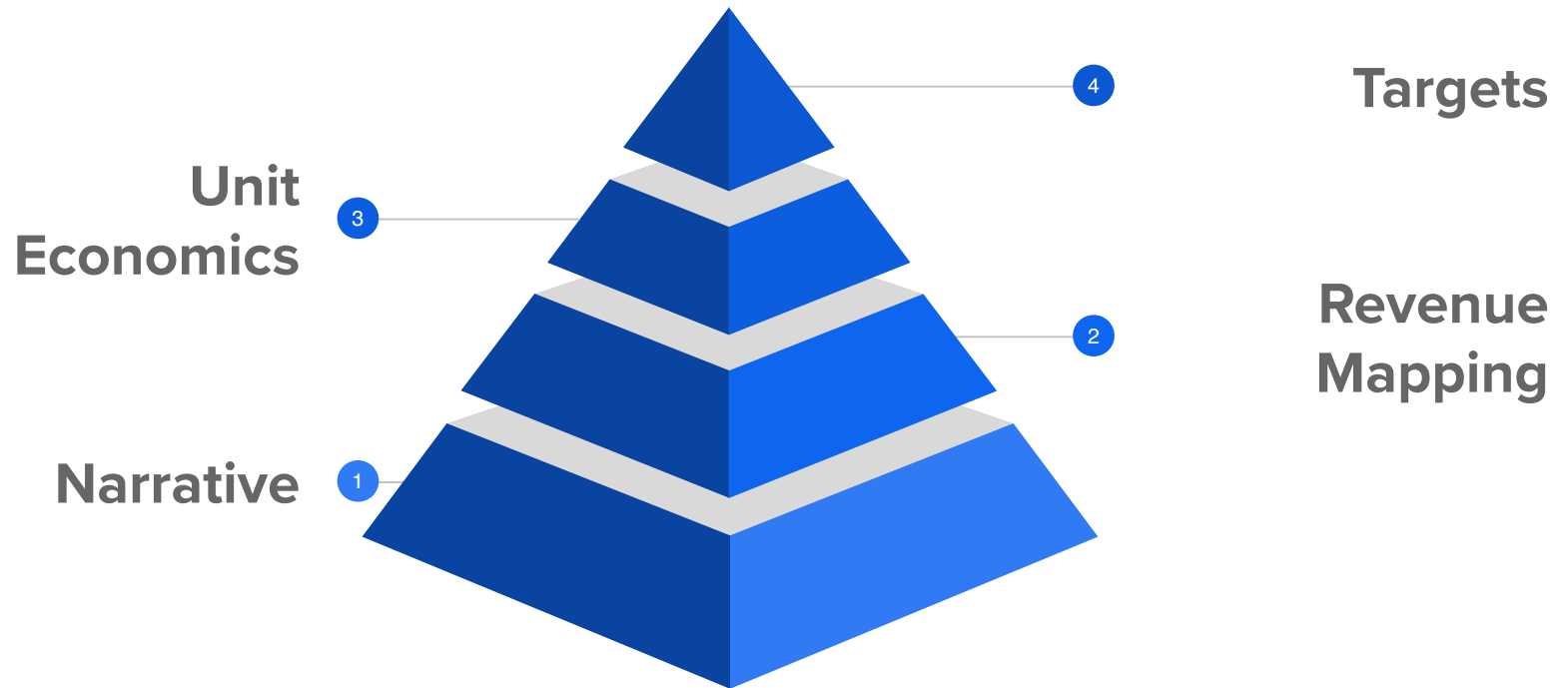
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Narrative

My revenue goal is:

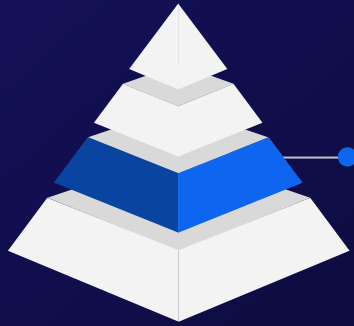$10M in revenue

My timeline (in years) is:

5 years

My impact will be:

Global leader in career development

My narrative is:

My goal for Velocity Growth is to reach $10M in annual revenue in 5 years by scaling a membership community that helps startups grow faster, smarter.
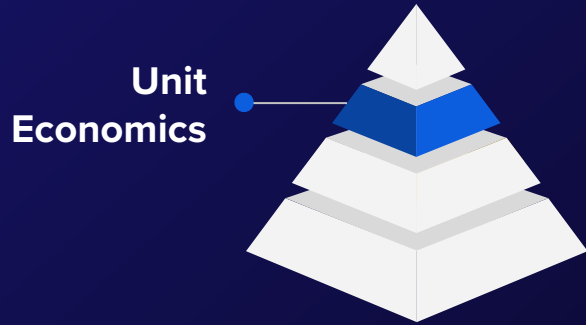
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Revenue Mapping

Step 2: Run revenue mapping scenarios

Revenue mapping forces you to think about what getting to your end goal will take, and what the next couple of years may look like.

This enables you to model out different pathways to get there.

We cover this in detail in Mastering Growth.

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Unit Economics

Step 3: Work in unit economics

By looking at unit economics now, you can get a sense of how many units you need to sell, over time, to reach your goals.

We cover this in detail in Mastering Growth.

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Step 4: Set your year 1 target

I'm going with something between my mid and high range model as it seems more realistic.

My target is $500k for year 1.

If my product costs $1000, I need to sell 500 units to pull this off.

We cover this in detail in Mastering Growth.

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Build your growth model
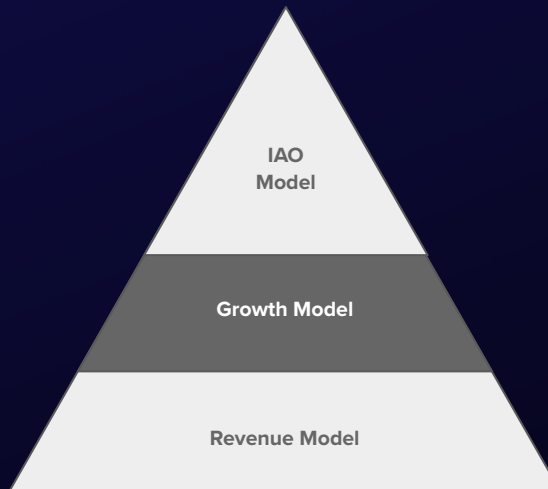
Growth Modeling

Once we understand our top line revenue goals, we can build our growth model.

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Growth Modeling

Sticking with my financial model, what determines how I get to $500k in year 1?

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Components of a growth model

Growth model is comprised of:

1. Cost per unit
2. Number of units sold within a period of time (i.e. month)
3. Monthly growth rate

For subscriptions, it's also:
1. Number of total active subs
2. Churn per unit of time

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Year 1 target, subscription model, 10% churn

Subscription model		
Subscription cost/mo.	$29	
Monthly Growth Rate	20.00%	Initial growth rate per month
Monthly Churn	10.00%	Customers we lose every month
Starting Subs	25	Number in month 1 to hit goal
CAC	$100	Blended cost to acquire a customer

	Revenue	Mktg Budget
Year 1	$99,176	$98,951
Year 2	$1,019,013	$882,259
Year 3	$9,123,67 8	$7,866,313

Month	1	2	3	4	5	6	7	8	9	10	11	12
Growth Rate	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
New Subs	25	30	36	43	52	62	75	90	107	129	155	186
Active Subs	25	53	83	118	158	205	259	322	398	487	593	719
Churn	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
MRR	$725	$1,523	$2,414	$3,426	$4,586	$5,932	$7,503	$9,351	$11,533	$14,121	$17,198	$20,865
Marketing budget	$2,500	$3,000	$3,600	$4,320	$5,184	$6,221	$7,465	$8,958	$10,750	$12,899	$15,479	$18,575

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When to adjust the model?

- The model is only as good as the data you get back
- Adjust it regularly as you learn more
- Many factors will impact the growth rate, so use it as a benchmark, but be flexible

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Thanks

Continue the program in the next module.

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