# Business Models

## SmartUp Foundations Course - Lecture 4

### Given June 2nd, 2024 by Yonatan Stern

We are on to lecture four, and this one is on a different subject altogether, which is business models. I apologize in advance, there will be a lot of spreadsheets all over, because a business model is with spreadsheets, but I tried as much as possible to make them easy to follow and understand. I'll start with the usual introduction. Myself, Libby is on vacation, so don't look for her, and I allow. And again, what we try to do here is a program to teach the profession of building successful companies. And as I said many times, building a company is a profession like any other profession, which means you graduate from university, you might have some clues about the idea, but real life looks very different than all the people with companies, not their head.

It is very different than what you might be studying in school, and so we teach it. First of all, we said building successful companies, and we have a definition of what is a successful company, and we're going to dive into that definition at length during this meeting. So there are three criteria, three pillars of the idea. One is the company has to strive for profitability from day one. That's the target of the company, produce money, be cash flow positive. That's number one. Number two, it has to be fast growing. And number three, it has to have a modest investment, because as I will describe later on, this whole notion of how you do the financing and for people like you that might be very interesting, he's angel investor.

The methodology we are showing in here takes into account that the money you get has to go back to the investor. So when you reach profitability, you have to start paying back the investment you got.

And we do also workshops, which is a few companies sitting together, two, three companies on a subject like how do you do a brand, and then we sit down specifically with those companies, and obviously, as you can see, the residency picture we have in here, because it takes a long time to build the company, and we found that at every step of the way, there are questions, and we have regular meetings with our companies, regular, I mean, once a week, once every two weeks, depending on the status of the company, and as Maury mentioned to me, that they gave me homework now for a meeting that they have. Okay, what is the language of business? So mathematics is the language in which God has written the universe. That said, Galileo Galilei at the turn of the 17th century.

And what he did is he was the first to write an equation in physics. You can see it on the right, the famous experiment of dropping a heavy body and a small body and showing and proving that they reached the ground at the same time. By the way, he didn't do it this way, because it was too fast to measure. He did it on an inclined thing that he wrote, two balls, but the concept was the same. So what is the language of business? We talked about it, money, but this time I added a little more. So when we say money, we need to build a model that can calculate the money. And every decision that we want to do has to be converted or expressed in the model in monetary terms.

If we raise the price, if we lower the price, if we hire more people, if we hire less people, if we do branding first or branding later, all of these have to be expressed in the model so that you can measure the impact that they have. So let's start with a few questions. Why are profitable fast -growing and modest investments? So I'll answer. So what's the difference between a company that generates a million dollars a year and a company that loses a million dollars a year? I'd like to ask this question because the answers are not the same. It's not two million dollars. Those who answer two million dollars should start at grade one. So if you lose a million dollars a year and you have five million dollars in the bank, you know you have five years to live. It's that simple.

So you either raise more money, get deluded, have a fight with your investors and whatever, or you just run out of money and you shut down the business. Those of you who have some experience, I have seen it many times, I see it on the smiles on the faces in here, all the people who encountered this dilemma. So don't lose a million dollars a year. Don't lose a dollar a year. Make money all the time. A company that generates a million dollars a year lives the infinite game last time, I think two times before I spoke about what is the infinite game. The infinite game is why do you build a company?

Do you build it with a target of winning, of reaching somewhere, or because that's what you want to do and you enjoy every day of the week and the people around you are excited and you think about it as that's what you want to do in your life, period. That's the infinite game. You build things or you tend to your garden, which I now do, because it's fun and I like the flowers and that's it. So a company that makes money, you can thrive and you can grow and you don't owe to anybody anything. And you have figured out a successful business model. You don't make money by mistake. So somehow you figure out how to sell your product or service or whatever at a price that is way above the cost that it costs you and you make money.

So that's already a huge check mark on what you do. Now you have time and resources to pursue other worthy purposes. For example, I've found card scan, I've built Zoom, from Zoom I've built Bezo, then I've built this, all of it is one coming out of the other because when you generate money, you're a master of your life and you can do whatever you want and that's a lot of fun, that's the infinite game. So I want to wish on all of you get there and do whatever you want. You have the independence to do whatever you want because you don't need permission from anybody, you can pay the bills, you can go to any restaurant you want or even walk on the beach. And the last item is really important. A profitable company is much easier to sell than a losing company.

And the reason, there are two reasons for that. Reason number one, the buyer knows you are not in a stress to sell. So you can negotiate with a smile on your face and you have all the time in the world, meanwhile you generate money that sits in the bank and everybody wants to put their hand on the money sitting in your bank or on the machine that generates that money. So a company that generates money has a floor on the price people are willing to pay for it. Usually it's time 20, time 15, time 30, depends. So if you have generated a million dollar a year, you're probably worth anywhere between 20 and 30 million. It's that simple. "\n"
And then, of course, you will get all the money above it based on what you do and how important it is and all the other stuff. So that's very important. So now that you are convinced to make money, why do you need to grow fast? What's wrong with, you know, sitting idle and making enough money to pay for lunch and your kids and that's about it. So first and foremost, it's the ability to pay the investors back. Maybe I'm a bizarre creature that thinks that when people give you money, they want it back. And they want it back with a pretty high assurity. One out of ten companies succeed is, excuse me, for the term, stupid. You should think about it when somebody gave me a million dollar, that's a lot of money, I need to return that money.

Your behavior becomes very different when you think like that. So start thinking like that because it will help your life. And when you grow fast, you get a compounded growth in the value of the company. So I explained to you what that means. So I said before, if you make a million dollar a year, people can calculate your worth anywhere between 20 and 30 million. But what if the year before, you did a half a million and you have very good plans to do three million next year because you are growing fast, you build the engine, then clearly you are not going to sell the company on what you are doing now. You will tell the buyer, listen, next year we're going to do three million, I want a multiple of three, but why only next year?

I will be five million dollar profits, two years from now. So you have tremendous power to negotiate the value of your company. Companies that grow fast attract tremendous attention. So grow fast, you can do that. A company that doesn't grow fast is just not interesting for me, but I'll leave it for you. And why modest investment? Because it's much easier to raise small amounts of money, not always from VCs, but I think if you haven't noticed my opinion about how VCs operate, then you don't listen. You have many more sources for financing. Somebody here asked me how I started it with $50 ,000 that somebody gave me just for build something, and he also recommended an engineer. That's how the company started.

So you can start, and if you use the money wisely, you can use that to build more and more, and you don't need a lot of money. Second, which we're going to talk about later, founders can keep much bigger ownership, because money doesn't come for free. When you raise money, somebody wants it back, so VCs usually want it in terms of ownership of the company. So you get deluded. What we're going to do later, in this meeting, we had last time, sorry. Two parts. We're very fortunate to have here Yael Levinson. Can you please raise your hand? He's also a mentor at SmartUp, and he has a very interesting story about the company he built.

I will not steal your thunder, and we will have a very interesting piece of humor at the end, so those of you who want to live before the end will miss. It's much easier to raise money if you go after this, because today what they call seed is a ridiculous amount of anywhere between $2 million and $5 million. I think that's more than enough to build the company. And because the plan is you paid the money back, we can create very innovative financing mechanisms that will be attractive for many people. I will not go into them right now, but I will devote time to it in one of my lectures later on. So what is a business model, and here I have to apologize.

Since there is a mixed crowd in here, I kind of showed it down to the detail of how you build the spreadsheet, so bear with me, okay? So I show some of the things, and then I go up, and then I go down, and I go up, and I go down in the details. Please bear with me, okay? Those of you who know can smoke meanwhile or do something.

So this smarter business model is a spreadsheet, basically, okay? That models how your business evolves over time. So it has two dimensions, okay? The X dimension is time. And it's based on your assumptions. Each column represents a time, usually a month, because that's how we all used to work. Sometimes it's sort of as we move out into the future, sometimes annually if we move really out.
But I think it's very important to be down to a month because a month is a long time enough. And each row is an item, so you have a spreadsheet, okay? Each column is months, and each row is something. We will see it later on. And the business model allows us, remember, that you have to put all your assumptions. It's a good way to analyze a lot of your assumptions and parameters, like your pricing, payment terms, hiring, people, whatever it is. Very, very powerful tool. We'll see some examples as I go on. Now, if the model, if you build it correctly, you can use it later on as a tool to track what you're doing. So you kind of build the model, you think you understand what you're doing, and then you start hiring people, try to sell and so forth.

So you have to update this all the time to reflect reality, and that will allow you to track what you're doing as well as figure out, oh, I've hired two more people that were not in the model. What does that mean to the amount of money I have in the bank? Easy to do it with this. So here's a simple business model. Don't ignore the numbers and everything. This is just an example. We'll go to it later on. As you can see, these are months, January, February, and so forth, and this is the items, number of new customers, number of customers, how many salespeople you have, all of that stuff. And the assumptions are at the top.

Usually I put them at the top very explicitly, so I know what I'm doing, and I use those assumptions in the formulas that I put in the business model. So it's very easy later on to start playing around with it. Okay, in every business model, there are two sections. So now we go beyond the Excel spreadsheet into what's the logic, how you build a business model. And the logic is very simple and straightforward, but you have to focus on what I'm saying now because it's very important. So there are two sections that evolve over time. Not surprisingly, the top one is a section that is dedicated to your income. All the revenues, all the sources of money that would come into your company are at the top, usually. Then comes the expenses. So the second section is the expenses. Income expenses.

And not surprising, if you subtract the expenses from the income, you get profit or loss. Okay? Usually in accounting, they put loss in red with parentheses. That's the way I do it. There are many other ways, but it just helps you to see what you're doing. Okay? Now, income is usually modeled and tracked by different sources of income. So when I talk about income, there are several sources. There's products, for example. You can put it, if you have a single product, it's one line. If you have five products, usually you want to put each product line or each product independently so you can track the performance of them and you can predict them. Then many companies also have services consulting all kinds of things that they do.

And I put other because clearly this is a generic model, some companies have other income, I don't know, from patents, from whatever, I don't know what. So you put all of that at the top as a section, this is your income. The expenses are usually divided into three groups. The first one are sales expenses. Sales expenses is everything that is directly related to each item you sell. Okay? So if you want to sell something, it costs you money and you have to calculate it in here. So, for example, number one is, you know, I want to sell computers, it costs me money to produce a computer. I sell shoes, I need to put the price of the pair of shoes before I sell them. So cost of producing and delivering the product is number one here. Cost of selling the product. Okay?

So there is a term called customer acquisition cost. You put ads in Google, you advertise on billboards, whatever you do, then you have to include it in here and you have to make an assessment how much is it per sale. With customer acquisition cost using Google ads, for example, it's relatively straightforward. Why? Because you can track the entire process. With a billboard, you have no idea who sold the billboard, who bought, whatever. So nowadays, because a lot of things are done on the web, it's relatively easy to follow the customer acquisition cost. And then you have sales cost. If you have a sales group, okay? And you want them to sell. You pay them a salary. Many times you pay them commissions. And you know how much they sold.

So if they sold $100 ,000 and they cost a month, and they cost you $20 ,000 that month, then it's 20 % of your sale is cost of sales. Now, by the way, I'm not trying to be very accurate in here. People do it different ways. Don't get hooked on it. I'm trying to explain the concepts, okay? Second, what I call stable expenses, which is not an accounting term. So what that means is you have a company, okay? So you have people, you have management, you have space, you have cloud computing, you have operations. And they're kind of static in the sense that you cannot hire and fire people every week based on whether you use them or not. You cannot break it your office over the weekend and get the money.

So these are fixed expenses, but I don't use the term fixed because it has a totally different meaning in accounting. So I don't want to confuse it. But essentially anything that is not variable directly depending on the sale, I put it under this, okay? It's just a whole section of all your expenses. And then there are one -time big expenses, okay? You build a lab, you take McKinsey to do some consulting for you for half a million dollar, whatever it is, you can get all the things that we gave the presentations. But the most important thing is that the smarter business model is an operational cash flow model. It is not an accounting P &L, standard P &L. Why cash? Mainly because when people work for you, they want to get paid.

So they don't really care about your P &L, they don't care about your assets, they don't care about anything, they just want to get paid by the end of the month. So cash is king. This is a cash model, not a P &L model for those of you who know the difference. Okay, every model is based on assumptions like time to market, pricing, customer acquisition cost, all of these. And the assumption has to be stated clearly and used explicitly in the model because otherwise, why do you say that? And then you will be able to start fine -tuning them. Okay, do we want to have the price at $1 ,000, $1 ,500, $500, and so forth and so on. There are elements that are tied to one another. For example, price elasticity.

Well, if I charge $1 ,000 and I predict that 10 customers a month, what if I charge $2 ,000? Would it go down to half? Would it go down from 10 to 8? You don't know. The reason I bring it up in here is not just guess, yes, you need to guess, but when I said branding first, I wanted to also point out that a lot of the things you can do is test these things. You will feel much more comfortable taking $2 ,000 and other $1 ,000 in your model. If in your test, you saw that instead of 10 people responding to the 1 ,000, 8 people responding to the 2 ,000. For those of you who are very quick with math, 10 times 1 ,000 is 10 ,000. 8 times 2 ,000 is $16 ,000. It's $6 ,000 more.

When I went car scan, I already moved on to Zoom Info. I had a CEO, and one day he came to me and he said, I have an idea how to make a million -dollar profit more every year. He said, sounds good. How are you going to do that? He says, well, currently, we sell the product for $249. I'm going to raise it to $259. I don't think anybody will notice. And he did it. And he generated another million dollars. So yes, you want to charge as high as possible as long as you make more money along the way. So this correlation between price and number of customers is critical. For the purpose of the model, is to test different values. This is what I'm telling you. But really, if you can test them in real life, it's much better than just playing.

Okay, so let's move to the fun guy. There's a company called Tanagora. Are you guys familiar with it? You can't. I invented the name yesterday. And they produce, they optimize the production of Dakamichis. Anybody know what a Dakamichi is? Do you know what a Dakamichi is? Yeah, I don't know. I don't know. Similar things. And they assume it will take them a year to develop the software and three engineers. One of them is the founder and CEO. So we don't need to hire another one. We need to hire two more. They assume they will be able to hire the first engineer in months two and the second engineer in months three. And let's compute the cost. I'm taking you at the beginning with some very easy exercise and then it will become a little bit more complex. So here's what you do in here.

You just put the assumption, okay? Here is the founder fully loaded cost you $8 ,000 a month. You see, the founders take less than the engineers because they want to conserve money. The engineer cost $10 ,000. It's fully loaded, which means with all the benefits and everything, but not anything beyond that. And the salesperson is $10 ,000 and so forth and so on. And here I say that in my experience, usually if you take all the people in the company and their salaries, your full money is about 1 .0 divided by 70%. Why? Because you need to rent a place. You need to have computers, blah, blah, blah. But usually it counts to salaries representing a software company between 70 % and 80 % of your expenses, the fully loaded. So it's easy to calculate. I'll put it in here.

You have two founders, two engineers, know what it means. This is year one and they are building the company. You can see in here my assumptions. They grow, okay? Here are the salaries and the 70 % of total cost. And here is the overhead. You can see in here, calculated as a line. So I separate these things so that I can see and track that I have done the calculation correctly. By the way, I found several mistakes later on in the other things I did. So if people tell me, oh, it was here like that and here it is, I know there are mistakes. But those who catch the mistakes will get two points. They decided to go with the sales model because it's a new company, new product, nobody here knew what they were building.

I asked you three times, you have no idea what they were building. So they figured out it's going to take them some time to do that. And therefore, they want to go through a sales model. In general, there are several models.

Sales model means you hire salespeople in your organization and they're going to talk to each and every customer. That's a sales model. There's an e -commerce model obviously where people come to your website, educate themselves, put a credit card and get whatever they need to get. It doesn't have to be. There are also retail channels, there are resellers, there are many models. Each one of them have a different cost structure. So you have to be aware of the cost structures. By the way, this is the first of a series of lectures about business models.

Right now, I'm talking just about the mechanical model, how you calculate things. Later on, I will discuss in future lectures about, do you want to go with a sales model with salespeople or do you want to go with an e -commerce model? They're different from one another. They're actually conflict with one another. Some people smile. Everything I say and people start smiling. Those of you who encountered what I'm talking about, start smiling so I can kind of point to you guys. Pricing. They believe they can sell a license for $1 ,000 a month. Again, I put everywhere believe, believe because they sit down and play with spreadsheets. And they believe they can grow sales from one new customer in the first month after they finish, which is the first month of the second year.

And so they believe they can start with one, then it will go to two. Then at the end of the year, they will have between 8 and 10 customers per month. Okay? And then it will grow by one every month. I just put a model. Clearly, that assumption that I made is the key assumption you have to think the most. Because that is the revenue line. So what you put in here is the most important thing. But just for the sake of the model, I just put something there. Clearly, when I talk about branding first, this is one of the things you want to start measuring is the response. You did something. Did anybody respond? Were you able to take them down sales funnel? All of that you can do, by the way, before you have a product.

So you want to start testing these assumptions as early as possible. Because they will direct you what to do. And they assume another good thing, no customer attrition. So even though we charge, see people start laughing. So customer attrition, or is it called churn, means people charge their credit card every month and one day they stop paying, they remove themselves. So every company have churn. The question is, of course, how big is the churn you get. But I assume here no churn. And the customer acquisition cost is zero. Why? Because they decided they're going to go with a sales model. Again, not very realistic, but if you wanted to follow my model and you don't want to have 30 lines, I just cut a lot of assumptions out. But you can start seeing the complexity. And there is a value to what I'm saying.

That's the reason I'm expanding on it. As you sit down to build the model, you put a line, ask yourself, okay, wait a minute. How is this line going to happen? And you immediately realize you need to add two more lines above it. Customers, how do I am going to get one customer? What do I do to get the customer? Just cold calling? Am I going to advertise? What am I going to do? And so forth and so on. By building a model and doing it smartly, you start asking yourself all the time, why am I putting this in here? What should happen before that? How do I pay for it? How much is it going to cost? So, building the model is a great exercise in really thinking about the nitty -gritty of your business.

As I said many times, businesses succeed or fail on the little details. I've yet to see a business idea that is not phenomenal and everybody's going to buy it. They all fail or succeed on the little details. So, force yourself to think about it. And I also simplified the model and said I'm not paying commission. I put $10 ,000 a month's spare of this, which is 120 annually. And just to show you again how I do a cost check. This is just I added in here to tell you. Does it make sense? I wanted each salesman to sell five new customers every month. $1 ,000 a month. That's 12 ,000 a year. That's five times this. It's $60 ,000. And I'm paying him $10 ,000. Am I within reason?

So, in my experience, salespeople usually get paid or cost you somewhere between 15 % and 20%. Or for they sell. So, we are in the right ballpark. Okay? Again, I'm trying to show you the details because at the end, it's all details. All right. So, the first year I showed you, we just built the product. This is the second year. You will see because it's a huge spreadsheet. I put in here always which year I'm talking about. Okay. And you can see in here, I have five new customers per month, per salesman. This is the assumption. I need another salesman because after a while, I have existing customers. I don't want them to churn. So, I need to put somebody to support them. So, I assume every 50 customers will need somebody to support them.

And I assume every 80 customers will need somebody to, you know, train them, solve problems and whatever. So, that's a customer's success. And you can see in here the lag. Okay? If I want to sell five customers in here, I have to bring the salesman here. Okay? Three months beforehand. And again, this is the overhead. And let's move on. So, what did I calculate in here? So, this is year one. You see, before year two, I started adding, remember before that, I had $600 ,000 in cost. Now, I have suddenly more and that's because I added the salesman three months before I want to start selling. You have to be very careful with what you build and even when I was careful, I did mistakes. I made mistakes in here. Okay. So, you start seeing in here, this is the number of customers. Okay?

As I said, one, two, three, three, I get to the end of the year with 10 accounts, 10 customers. Okay? And how many salespeople I have? You can see, I have at the beginning one, then when I get to five, before that, I go to two salespeople, then three salespeople, and they are reflected in the expenses. Okay? So, I put in here, but I did the calculation, like I said before, and I calculate the expenses. This is the aggregated expenses, the most scary line in your model. Why? Because you need that money from somewhere. So, that tells you how much money you burn, as we say, every month and it aggregates. Okay? All the time. It keeps growing. So, if I look at it, now at the end of the second year, we already burned a million and a half dollars.

600 ,000 to build the product, another 900 ,000 to start selling it. Year three, again, you can see in here that the number of new customers grows by one every month. Total number of customers keep growing, as you can see. And everything is nice, but I still lose money. Okay? The bottom line is still red. And I end up with already 1 .8 million, kind of, towards the end. But, look at this. So, in year three, in October, yep, it's the first time I suddenly see green. It's actually black in here, but green. Okay? So, that's when you start making money and you better look and see that it continues because it might just be a fluke for whatever reason. But you want to see that you're really out of the deep. How much money do you need up to that?

It's always the column before. Right? Because that's how much money you needed from somebody else and from now on you generate your own money. So, the column before tells you how much money you burned up to this moment. So, for your purpose, I wrote it down. So, investment needed is a million 831 and you turned profitable on months 34 from the day you started. Year four keeps growing. You know, we said you grow one new customer more than before every month. So, we kind of have an engine, unbelievable engine that keeps growing all the time in a very nice way. You know, as I always say, the Excel can take anything. You can do it two months. You can do it five months. The only problem is just to perform. So, it keeps growing and then look at that.

That's the first time you see this line becoming green. That's when the amount of money you generated from profit covered the investment you took. So, you paid your investment back on months 52. Until now, I showed you things that you see in every MBA school or actually in eighth grade in high school. The difference is three things. How long does it take the company to turn to profitability? Remember, I said, successful companies have three things. So, now, for the first time, we quantify what we talk about. Remember, Galilea, if you cannot quantify, if you cannot write an equation, you don't have science. So, this is the science of building companies. You want to calculate how long will it take you to reach profitability, how much money is needed and how long does it take you to pay the investment back.

Three very critical numbers, we're going to measure them again and again in this presentation. So, the Tanagora exercise tells you, took 34 months to turn to profitability, required about 1 .8 million and took 52 months to pay back the investment. I don't say return on investment because, again, that's a very known term and means something else. So, I use a different term just to make sure that we are not confusing. Okay, but how does that correlate to what we said? Grow fast, you know, and so forth. So, let's do it. Profitable, easy. You know, how long it took you to be profitable. Modest investment, easy. We calculated what is the investment needed. What I'm doing in here is that I connect the fast growing to how long will it take you to pay back the loan or the investment.

If your company is stable making a dollar a month, every month and it's profitable, great, but you will never pay back the loan. So, you need to grow fast and your investors will look at you to say, how fast can you pay back? For that, you need to grow fast. So, I correlated the fast growing with paying back the investment. Okay? Any questions up to here? Because there's a lot of material going on. Modest is what you can raise. He never was modest. I can tell you that. Here you got the answer. But considering there are about somewhere around 8 billion people in the world, there are 700 something million billion whatever who want to be like a long ass, okay?

So, don't always take this because at the end of the, realistically in my experience today, I think you can build a nice company for less than 5 million dollars. I'm practicing it myself and I become cheaper and cheaper. So, I put less and less money just to see if, you know the famous story about the guy who wanted to see if his horse can live on smaller amounts of food. So, there's still a lot of the companies, but I'm testing. Okay. So, the purpose is to test all of these assumptions. Okay? And calculate these numbers. But there's a problem. We have a monthly subscription. That means customers can just yank their credit card and stop paying. So, we assume no churn. But what would happen if we do have churn?

So, I put in here just so that we get a sense what does it mean churn? So, if you have 500 customers and you have a 1 .5 % churn, that means every month 1 .5 % of your customers churn, then you will lose 8 customers if you had 2 % churn, it's 10 customers and so forth. Now, why did I pick those numbers? Usually companies measure churn, good companies churn anywhere between 20 % and 30 % of their customers on annual basis. That's reality of life. Why do they churn so many? Well, many times the customers being acquired got bankrupt, the person left, whatever it is, reasons that have nothing to do with your product. And they churn. And other times your product doesn't answer your needs or it's not good or they hate you, whatever it is.

Around 20 % is very common. So, 1 .5 % on a monthly basis, I assume it's about 20 % annually. Okay, so I started doing the same exact calculation that I did before. But this time I put attrition, 2 % monthly. We calculate the attrition in here. So, this is year 3. You can see the attrition here. Again, there's a mistake somewhere here which I couldn't find before the lecture. So, if you can find it's good. And let's see the impact of it. So, we are on to year 4. And here's the first time that we see profitability. Okay? And this is how much money we needed. Remember, before that, it was 1 .8 million. We are now up to 2 .1 million. That's the first time I show you the power of what we do in here.

So, you can start, you start with a very simple model and you start adding to it layers of complexity so that it will reflect the reality better and better. What happens if you put 5 %? Probably pretty bad. But you can start playing and seeing the impact of it and you only have to calculate 3 numbers. How much money I need? When am I going to be profitable and when am I going to pay back the investment? These are the 3 numbers you keep comparing all the time, which simplifies the whole process. So, the investment is 2 .1 and the turn is profitable on month 55. And let's continue to when you pay back. So, it's right there. And, sorry, you see I made a mistake. I know I made a mistake.

So, you turn it back on month 55, I think there it was 30 something. We will get to it later so don't worry about it. So, we go back to here. So, it was 38 months. So, when I calculated with 2 % churn, these are the numbers I got. 38 months to profitability, 2 million, 127 and 55 months. But, let me ask you a question. So, $1 ,000 a month is $12 ,000 a year. Do you think it would make any difference if they pay $1 ,000 a month or $12 ,000 a year? Those of you who think there is a difference should raise their hand. Those of you don't think there is going to be a difference. Okay. Genius class. All right. So, we changed the model. $12 ,000 a year.

You see how easy it is to play with all of these things. And, let's start to see what's happening. Okay. We didn't have to wait long. We are now on year 2. Year 2. And you can see we are already profitable in December. And, we needed only $1 ,000 ,000 one. Not $1 ,000 ,000 eight. Not $2 ,000 ,000 one. $1 ,000 ,000 one. Radical difference. And, I would venture to say that you wouldn't lose a single customer because you ask for all the money upfront. So, why don't all people do that? So, the answer is somewhere else completely. If, and it's depending on your business model, remember what I said at the beginning. They decided to go with salespeople. Salespeople can tell, you know, they negotiate, they can get the companies to pay.

If you have a web and e -commerce application, I'm not aware of e -commerce applications where you put a credit card and we charge you $12 ,000. It just doesn't work this way. People are used to paying tens of dollars, maybe hundreds of dollars. They're not going to put a credit card for $12 ,000. So, by charging upfront, it is correlated to the sales model you choose. I'm just showing you the complexity of a business model. Things are connected. They are not independent. But if you already go with a sales team, do this. Okay? So, you start seeing what's going on here. So, this is what I wrote. And now, let's see where I get the money back. Here it is, right there. And that's month 34. Okay? Now, here it is, all the numbers. Okay. So, now we take churn in here, okay?

So, I take a churn of 20 % a year, which is kind of equivalent to 1 .5 % monthly. So, let's see what happens. You see that it has zero impact on when we reach profitability. And the reason is, it happened in the first year of sales, so there's no churn. A year ago, there were no customers, right? So, if I'm getting profitable so fast, very rarely people break the contract and ask for the money back. I haven't seen any of those. Okay, and again, the same amount of money needed. As you can see, nothing has changed. There is a slight change when you want to see when you pay the money back. Okay, it moved a little bit. So, month 36. Now, I know you will remember everything, so I put it in one place just so that you can see it, okay?

So, I put the scenarios. Here they are. And the three variables that we calculate, so you can compare them. The reason I did this is exactly what I tell people to do all the time. Okay, you have three numbers to calculate. It's easy to do. It's not like a whole spreadsheet with a million columns and a zillion lines. You can't compare them. And you forget, after you make a few changes, you forget what you did. This way it's easy. You only calculate three numbers and you can put all the scenarios and calculate them. It's very easy. And you can see what you've given, what you take. So, let's go back to this. Profitable. We talked. Modest investment and fast growing. And we want to teach a methodology, right? So, I will venture to that and then I'm really on time.

I'm very impressed with myself. So, if you recall, I kind of preached for two lectures on branding first. Remember, I said, before you write the first line of code, before you build a product, before you do anything, branding first. What is the outcome of the brand? It has to be measured too. And the measurement is response you get from the market. People click on something. They fill out a questionnaire. They buy your product even though it doesn't exist. It doesn't matter. You need to get feedback from the market that you can measure. And that feedback allows you to do this. So, my recommendation for the companies are always, first of all, think about how do you get attention from your customers or prospects, actually. That's the branding first. But write on the heels of it before you develop your product, before you do anything.

Build a business model like the one I said. Think about all the things. Again, it takes a day. That's all. You just play with it. But gradually, you will see what are the parameters that will make a huge difference. Pricing is obviously one. And now you want to see, for example, we are talking now to one company, and I told him, I want you to test what would happen at three different price points. This is a physical product. We'll see it in a moment. And obviously, there is a cost of goods in there, so you can't really sell it for nothing. But let's see if people will pay $99, $149, $199. Let's just measure because that will make a huge impact on everything we do. So if we get people to our website, we can try to sell them.

We see what they click on, and we do ABC testing on these three prices, and we can measure the price elasticity. That's before we develop and sell anything. Because sometimes you do all of that and you realize the business model doesn't converge. It just doesn't. People will not buy it above $10, and it costs you $20 to produce. You don't have a business model. Why work? Or it will cost you, I don't know, $100 ,000 to sell it because you need to bring consultants and this and that, and customers are willing to pay $50 ,000. There's just no business model. So you better test all of that as the second step. You create a link to the market and you start testing your assumptions. So when I talk about profitability, now you understand that there is a methodology behind it.

It's not if you build it will come, as I showed you in the movie, it's not. It is a very rigorous process that tells you what is the business model. Now, in the next lecture, I will start talking about not the modeling, but the models. Do we go with sales or e -commerce or retail or whatever? What do people pay for? Just to tease you, I'll ask you a question. How do lawyers charge? Retainer, by the hour. What else? Success fees. Success fees. What else? Code visits. Code visits with the internet. Okay, what else? Why? A percentage of the deal. Whatever reason they want to be my partners. If I buy a house for a million, they want 10 ,000 shekels. If I buy it for 10 million, they want 100 ,000 shekels. It didn't work harder. Why?

So what I'm trying to tell you is here is the same work, the same thing in so many ways that lawyers charge money. So the fact that you have hours of lawyers doesn't mean that's the only way they do it. So we'll go through that at length in our next lecture, next two weeks from now, and I'll show a lot of these examples of really what does it mean to build a business model. It has a lot of aspects you need to think about. Okay, we're going to take a break, and then Yael will tell us on his company. Yael, can I give you like 45 minutes? And then I gave you homework last week, last time, okay? And several of you have handed it in. What I would like to do at the end is go over the homework and as an exercise.

So please remain seated at the end. We're going to do some fun stuff at the end with that. And I'm going to give homework on this one. I just haven't yet prepared it. We will send it to you guys. Some Excel sheets to produce. And there will be grades, and those who won't pass will not be allowed to come in next month. Thank you. Okay, so my name is Yael. I am about to tell you about my story as a founder of a company called Irides. Irides was founded in 2011, and it was acquired by Oracle at 2018. I'm still working at Oracle. You can see my long title. Don't ask me what it means. I don't know. Okay, I have done this presentation multiple times for entrepreneurs, normally in their beginning stages.

**I** don't know how many of you are in the beginning, in the middle, later on. Please feel free to ask me questions. And I'm here for you. And last, I just want to say how I know Yonatan and what brought me here. I think I was the first of two, the first employees of Zoom Info in Israel, right? Okay, so that's my connection to Yonatan. I think so, yeah, 2006. And after that, I went to work for RSA, which is the company that made Naftali Bennett Rich. It was called Sayota back then. And after that, I started my company. So that's that. I'm sure this will not surprise any of you, but this is what your life as an entrepreneur looks like. Normally, a lot of ups and downs. For me, it was seven years of ups and downs.

And sometimes you, one day you're up, one day you're down. Sometimes in the same day, you're up and down multiple times. And the purpose that I'm telling this to you, again, I don't know where you are in your journey. It's to persevere. Okay, it's to persevere and have the belief in what you're doing. And that is what proved itself for me, okay? As I, in the presentation, I will talk to you. I'll show you some milestones along my way and how it was up, down, both. And we can feel free to ask some questions about it. So I'll start with the idea. Here, I'm guessing not a lot of you know what Erie Dies is, to save me a lot of time in explaining the idea or less of your simple question. How many of you here know Walk Me?

Is there anybody here who doesn't know Walk Me? It's a very big company. You don't? Okay, so I'll tell. So for those of you that know Walk Me, were their top competitor in Israel. And I'll talk a little bit about that throughout the presentation. So what did Erie Dies and Walk Me still do? Imagine that you're going into a website or a web application for the first time. Normally, you would not know. Normally, you would not know what to do on that application or website. And the idea behind it is that instead of watching a video or calling customer support to have the application itself instruct you on how to use the software. So imagine that you click here, type your name here, and so on and so forth. Easy enough. Cool. So how did Die come up with the idea?

The idea came up for my personal life experience as the family geek, I would say. I found myself spending a lot of time explaining to my family members, friends how to use the web. Imagine this was 2011. The internet was there, but it was very different than what it is today. And people would call me and ask me, how do I purchase an Erticket online? How do I update my personal information on this application? And I just found myself ritually spending a lot of time on doing that. And the idea came to me that it would be very nice if the application itself that I was on could instruct me on how to do whatever it is that I wanted to do. It would save me time.

It would save me the trouble of watching a video and having to force my brain to remember everything and then do it again in the application itself. Okay, is that clear? Questions so far? Cool. Okay, that's great. Up until now, very happy, very fun, a lot of fun. And then this came six months after we started. I shared my idea with a friend. We'll talk about that friend later on. And we decided to start the company. We were two founders and we started. We both had the developer background. I also have an MBA, but were both developers by heart and we started coding the thing. Six months after we started, press release. A company called Walkme raises $1 million to do exactly what we are doing. Exactly one -to -one. It was a shock. It was devastating. It took us by surprise.

I don't know what other objectives I can use here, but it was very, it was stressful. And because as an entrepreneur, as a young entrepreneur, for me, the fact that we had competition was something that, oh my God, what am I going to do? And yeah, it was a big shock. And just what you see here on the screen, I took this after Eredais was already acquired by Oracle. You can see here, Competitives in this market. Our market is called Digital Adoption Platform. It is still called like that. You can see Walkme over here. And again, big Israeli company. They raised more than $300 million. They are now our IPO. And as a teaser, Jonathan will talk about that afterward. There is another company here, an Indian company called Whatfix, that raised only $200 million. And this is actually the biggest one called Pendo.

They have still not IPOed, and they have raised close to $500 million. So this is the atmosphere, the environment that Eredais was operating in. And very stressful. And what happened after this press release was we noticed something very interesting starting to happen, which is that the traffic to our website grew tremendously. And the reason for that is that all of the marketing power that Walkme and all of this specifically here, it started with Walkme. Walkme were the first to raise money. But what happened is that all of the marketing budget that went into those, that Walkme and other companies in the future came in as leads to our website. And why is that?

You can imagine that if you're a company who wants to buy another software product, the first thing that you do this as an individual as well, is that you check other alternatives, right? And this is how they came to us. Okay? So while I and my partner were in shock, we also very quickly realized that, hey, we're getting a lot of traffic. This is actually good for our business and it became a very high and actually motivation for us to continue to succeed. I will tell you a marketing thing, a marketing trick. I'm not sure. I do not consider this as branding, but our biggest money generator throughout the life of Eridize was a blog post that was titled Walkme Alternatives. Okay? We got so many leads out of this thing that you wouldn't believe.

A lot of them realized that were offering competing product. They realized that it was cheaper because we didn't have all of the investment that Walkme had and it turned out as a great thing for us. Okay? So again, up and down. Any questions on the competition or... Where is Eridize? Eridize is not here actually because I took this thing immediately after Oracle acquired it and when Oracle acquired it, they did not allow us to be sold to non -Oracle products. That has changed by now, but when I took it, Eridize was not on the thing. Okay? Funding. And this is where I think it would relate the most to what Yonatan has told you about and I would say why I'm speaking to you here. I would... I just... I miserably failed at getting funding.

I was not able to get any money from any VCs. Eridize was bootstrapped from start to finish. What that means if you don't know is that we grew up by the fact that we got more customers to pay us. And funding was always a struggle for me. Imagine that if you recall the previous slide, imagine that you have such big players like Walkme, Pendo, Wattfix, another Israeli company that actually Oracle itself invested in. קולטונימו. And through all of this, I was always told that I need to invest... Sorry, to talk to VC, talk to investors and get money, and I just failed.

And I don't know whether it was because I was very bad at it or because these companies were bigger and as an investor, normally you're looking for differentiation, you're looking for a strong team, which we had, but differentiation we didn't have, and the fact that they have raised so much money throughout their life cycle made it very hard for us to find investment. And at some point in time, I think it was three years after we started going, I just decided to stop trying. I realized that this was not my strong suit. I think that this was probably one of my best decisions, by the way. And I just decided to focus on what I did better, which is to manage the product and manage the sales and manage the team as a CEO. Okay? Questions on that? Okay. No investment at all.

Like, your name is there? Yeah. No, they call the investor. We got investment from customers, yeah? The initial money. So, when I started the company, I was working off of myself and my partner, were working off of unemployment. Okay? I don't know how to say it in English. No, but there is unemployment fees. That worked for us for eight months. And in those eight months, were able to build the product, start selling it, okay? At the beginning, whatever we sold was not enough for us to get a salary, but it was enough for us to get more people, and we grew this way. I personally took my first salary after three years, okay? Let's see. No, I had a very supporting wife, and we managed to do it together, okay? It's a group effort. Okay? Yeah, any other questions on the funding?

Just under 20 million. You're not going to ask me to say it normally? I don't say it, because I don't want to get any hopes of the other entrepreneurs, but as it relates to the continuation of the presentation, it's part of the, yeah. Yeah. It's not publicized, by the way, because were a private company, and no, it's B2B. So you're not untorked about the business model earlier today. I don't want to do a show of hands, because I think that everybody would raise their hands, but in the lifetime of a startup, you have to pivot, okay? You start with one thing, and that something must change. For us, it changed twice, okay? The second time it changed, it worked. And the first time that we changed is that we tried to take the product into a different, we tried to change the product, okay?

So at the time, it was the time where the mobile web became very prominent, I would say, and our technology was and still is very strong, and we thought that we could reshape it to make a website become mobile -friendly, okay? And we did that, we had the product. We almost sold it to a big bank in Israel. But it didn't lift off, okay? It didn't lift off, because there were bigger fish in this market. I didn't check before this presentation, but the biggest fish was called Mobify. I don't know what became of them and where they are today. That doesn't really matter, but as were doing this, and I think that the reason why we made the mistake is that we saw that in Israel, there was bigger traction for this thing, making a website mobile -friendly.

And were stupid to ignore the fact that all of the while, our sales for the other product were gaining momentum more and more customers, okay? So again, at some point, we said, okay, it was a nice try. Let's stick with the other product. The second pivot that we did, which was the one that was successful, was not changing the product at all. It was just changing our market. Originally, when we started the Redize, our go -to market was to sell to startups, SaaS companies. It was the same for Walkme and at least at the start, it's not the same now. To sell the concept of, it's called a trial conversion. At least it was called that way back then. Imagine that you're a SaaS company, you want to get your new customers to appreciate the value of your offering as soon as possible.

To do that, you need some sort of training to guide these users through the funnels that you want them to follow. And this is what Redize was great at and this is what we try to sell. What is the problem with that? Can somebody guess? Startups don't have money to pay. Startups shut down, they go back -wrapped. Being Israeli and you're Israeli, selling to product managers in Israel. A training utility like this is very... There is a big conflict of interest because they always think that the product is the best and that they don't need training, they don't need onboarding. They're always the best and this was another problem that we had specifically in Israel. It's still a problem to this product in Israel to sell, by the way, even for Raquel. So it wasn't just me.

And so, by chance, one of the customers that we acquired as... Well, they acquired it for one of their online offering, but they asked us if it would be okay by us, if they can use it for training their employees. Said, sure. Why not? I mean, same product. You can use it on whatever application you want. I don't care whether it's online or internal web application. And then the coin dropped for us is that it would be much more profitable to send employee onboarding, employee training, sorry, because these companies, they have enterprise companies, have a lot of employees. There is this concept of turnover where an employee would go, would come in and after two years, normally they would leave the company.

And in that timeframe, you want them to be as quick as possible to ramp them up, to know how to use the software that they are supposed to use, sorry, in their day -to -day routine. Okay? And that was the big pivot that made us successful. Again, a lot of luck in that as well, but you have to listen to what's happening around you. Okay? So from a trial conversion to employee training. Same product, same code base. And it's a lot of, when I talk to new entrepreneurs and I don't know how many of you are new to the thing, you don't have to change the product necessarily to become successful. Divorce. That's the only one that is, there is only a down element here. Five years after we started, my partner told me that he can't take it anymore.

And it was a big shock because I know that this is where I kind of differ with Yonatan. For me, it was very important to have somebody to bounce I did against. And I think were very good at doing that together. But after five years, he decided that he doesn't want to do any more software programming. He was a physicist. Don't ask me about it, but he wanted to do whatever it is that they do over there. And we decided to part ways to add more to this shock. And this is why I used the term divorce here, which is, he also thought that he should still keep 50 % of the company. Again, we had no funding and so it was 50 -50 between us. He felt that he needs to still keep 50 % of the company, I thought differently.

And we had to go through an ordeal with, I don't know how you say, בוררות. ארביטרשן. We had to go through arbitration and it was very tough. This is, I mean, you always have these questions that are floating around your head. Should I continue? Should I not continue? This was the hardest one for me, like to decide, I actually considered stopping to do this thing. That point in time we had five. Five employees, when were sold, we had 10, okay? Acquired, so. Sorry? In the end, he ended up with 40%. 4 -0, okay? So he left five years after we started, two years after that, were acquired, so in those two years, I accumulated 20%. Okay, so changing the, so we talked about the pivot to change from trial conversion to employee training.

As you can imagine, well, actually, I don't know if you can imagine, so I'll tell you, but changing the go -to market is a big deal, okay? It takes time, even though we didn't have to make a lot of changes to the product, to teach the market that you know that the same thing that you were doing before is no longer relevant and that you're now doing something else that might help them takes a lot of time. On top of that, selling employee training, we have realized that we need to sell to big companies and selling to enterprise companies takes a lot of time, okay? So it took us, I think, a year and a half to actually go through this transition.

And what happened is that after, like, the reason that I'm marking this year and a half is that in the, like, year and a half after we did this, were able to sell, sorry, to these three companies. We sold employee training to them. You can see, Oracle is one of them and this is how eventually were acquired. It's also amazing for me to say that we sold to all of these, this was before COVID and we managed to sell to all of them over Zoom, okay? So that was also quite an achievement. Well, it's like, I can say, listen, at this point in time, Walkme had already the 300 million that were invested in them in their bank accounts. And I think that at that point you are already beyond the ability to focus, okay?

So you try to do everything in English you say, spray and pray, okay? So I think that this was the mode that they were in. No, it's price. It's the fact that were, since you're a small company, you're much more agile, okay? We promised to them and they really liked the support, okay? So because you're more agile, you can make more changes, you can update the product to support their needs. This is something that was very appealing to them, to be a design partner where if they were talking to Walkme, they were just one of the customers, even if they paid more, okay? By the way, all of these, so we're now 2017, all of these companies are still using the product, Oracle obviously, but the other ones too, and Oracle started using it for their sales representatives, okay?

It was embedded in all of the tools that the sales people were using to sell Oracle products, okay? So it wasn't outbound, it was completely inbound. We had luck, okay? I think that every, each and every entrepreneur needs luck and if somebody tells you that they don't have luck, they're lying, okay? I never asked you what were your luck, but maybe we can talk about that later. But for me, I already mentioned one thing, which is the fact that Walkme raised money before us. It made us realize that we have a good product and all of the money that they were spending on marketing came directly to our website and allowed us to sell the product at a cheaper price and a very good product that our customers really enjoyed using.

The second point that I wanted to mention, obviously there are more points, but the point that is related to this discussion, the fact that I wasn't able to raise money came up very handy when the time came. The reason being is that Oracle tried to acquire another company before they acquired us, okay? If you remember on the sheet, there was the Wattfix an Indian company, Oracle were actually working with them. They were also working with another Israeli company that they actually invested in back at the time. Can you think why they decided to buy Eridis and how it relates to the session that we had here? We were 10 guys but also girls, but we still had two shareholders, right? That's true.

And more importantly, I think, yeah, the other companies had investments, so it was harder, it was more expensive for them to buy, okay? So that is a great, were just there for the and obviously, it made a lot of sense for us because for us, it was good money compared to the other companies. Actually, I see you didn't manage to update it. I'll tell you the updated numbers. This was, I think it was, I created this slide like one or two years ago. So we're now, the product itself still continues to live within Oracle. It's called Oracle Guided Learning if you want to look it up. It's making 50, more than 50 million dollars in ARR, okay? When were sold, were making one million dollars in ARR, okay? The growth, you can see, 50 % year over year. The numbers have dramatically increased.

The number of customers is now 1400 customers, okay? So in two years, that's the growth that we had and the number of users is also 200, oh, actually, it's more than 200. The number of users now who are actually using the tool, there are 10 million employees across these 1400 enterprises that are using Eridis today. We could have grown more, but we could not have reached the, actually, this is a good time to switch to the next slide because you see, we could not have reached these customers without Oracle. You need, like, I am grateful that Oracle and Visa and DHL gave us the trust that they have, okay? But in order to sell to these type of companies, you cannot do it as a 10 -man shop, okay? You need the backing.

You need to be able to support the long sales cycle, okay? Sales cycles for these companies can easily take two, three years. And as a startup, you don't like, I want the money now, I need the cash now, okay? So you cannot support this in a sustainable way, okay? No, and maybe I did a mistake there when negotiating the acquisition, but I don't think that I have. I don't think that Oracle operates this way. We didn't get, of course, we're getting stock, RSUs, options, that type of thing, but nothing directly related to the selling of the product itself. For myself, I'm still managing this product, both as a product manager and as a... I'm managing the research and development and the product of the same product still.

And we have grown from 10 people, which were half sales and marketing and half R &D to... Sales and marketing is now... I don't even know, okay? It's like thousands of people that are selling this thing. And as far as the R &D is concerned, we're now a team of 60. Okay. No. No, it's overall licensed sales and... The other thing that I'll mention and I would like touch on it is the question of luck. In everything you do in life, you need luck. In everything. But why are some people more lucky than others? Because they are open to it. So, when you try to build a company, don't say, I have the best product ever and everybody is going to buy it because it's wrong. You listen, as I described, right? Suddenly customers said, can I use it internally for training?

You better open your ears and say, absolutely yes. Do you have friends who need it too? And so it's luck, but it's not luck. It's really, you were listening, you were following the reality, and that's it. The question is, who did better? Walk Me? Or Real? No, let's take the CEO of Walk Me. Guess how much money did he make when the company went public? Now, he was the founder, and he's the CEO still, and the company went public. They raised about $290 million in going public, so the company raised $600 million. 309 from VC and another $290, so in the IPO. Raise of hands. How many of you think the founder made more than $100 million? More than $50 million. So he said that it's where the founders keep the 1 % of the company.

I'm asking, how many of you think he made more than $10 million? Okay, good. So this is a public company. So Ruti did the research, remember I told you 38 companies went public with evaluations, so Ruti did all the research, and obviously we have the answer. So they raised $305 and another, and they were worth $2 billion in Series G in December. Raised another $286, sorry, so they raised about $600 million compared to zero. And here's the stock. That's when they went public. I put the cursor in here, so they were worth, it was $99 per share. It's now at about $9. And here's how much they made since inception. They went down 70%. $800 million. So $600 million raised, and cap $800 million. Huge success. And it was founded in 2011. Same year as YAL.

By Dan Adika, referral sweary, YAL Cohen, and Yuval Shalom Ozana. I was able to find only two of them at the chart when the company went public. Yeah, I know, I'm just showing results, okay? So this is how they, how much they had, 2 .9 % and 2 .7%. But that's probably not the whole story because when an insider sells shares, they have to report it. Because remember I was at Zoom Info, so I was just intrigued to see what people I know sold and bought. So they have to report every time they sell any share. So here's what this guy sold. Look at the date. September 2013, the company, 2023, the company went public in 2021, and that is because he got probably restricted shares that were blocked for two years. And here's how much he made until today.

I just tallied all the shares he sold until today. So I think YAL he did a good job. Just think about the, when I talk to you all along and say, if you're profitable, you can do a lot of things, right? And the value of the company, so YAL was profitable because he supported himself, obviously. And that gives you all the time in the world to do things. And things happen. Luck? Or not luck? You just listen, you're just open to what's going on in the market. And the chances of making a lot of money doing the right things is much higher than what VCs tell you. And this is a great example. Okay, let's move on. So I hope I will be able to run the, let's think about branding your product. So we got quite a number of responses.

And then we discussed how we're going to deal with them in here. And I thought that the best thing to do will be actually to take one example, bring it up here to the entire team to analyze together. Okay, so that we can all look at it and think about it. So we chose one that is kind of interesting and easy to understand. So Devere came up with an idea and the questions that we will ask is like everything is, who are your prospects? And be as specific as possible. The problems you are trying to solve. Are the prospects aware of the problem? And when they have the problem, what do they do? And you will see in a moment what they do. And what else can be of interest to your prospects? So let me do it.

Everyone, even you, found themselves at least once in a situation where they were standing outside wanting a hot cup of coffee, tea, or soup. For that, we used these. But there are a few problems with these. Convenience, prep time, and safety. So I thought, let's put a water cooler everywhere on Earth. Wouldn't that be great? It will only cost around $5 trillion. I'm kidding. I thought about Kemos. The king of all thermoses. We basically took these and put them together, along with the patent. A thermos which can also do the job of a portable kettle, reaching all temperatures of heat. Wouldn't it be great if these had a button that could heat water anywhere? It would be so simple. But thermoses don't have buttons. Well, Kemos has just the button you need.

Kemos is a self -heating thermos that can get your water to full boil in just 3 minutes. And it can do it 5 times over before needing to recharge. Each battery can boil at least 5 cups of coffee and keep it hot for 4 hours after each boil. Kemos can boil enough water to fill up 2 whole cups. The Kemos is fully safe, even with boiling water inside. It's chargeable. It's light. It's simple. And the best part, it works great. And this is a hot hiker we took to be our presenter and show you all the things you can do with Kemos. Coffee in the forest. Parents who need to prepare food for the baby. Kemos can reach the sterilization temperature. Drink hot beverage in traffic. Drink tea in the desert. Why? On top of a pyramid. Again, why? Just kidding.

In the mountains where it's cold. So, hot presenter, would you use Kemos? Yeah. We decided not to pay you for this video. Would you still use Kemos? Hell yeah. So, let's talk business. The great news, it already works. The only reason we are raising money is for mass production. We have everything ready. The only thing we need in order to start the molding and manufacturing process is your support. In other words, we need you. Early adopters who believe in us and want to help us bring the Kemos to the market. If we reach this amount, we can start the process and bring you the Kemos within eight months. We have the factory, the engineers, the experience, and the desire to drink a hot beverage anywhere with a click of a button.

We already have the prototype, but without the production line, it costs $2 ,500 to make one. On the market, it will probably cost $130. But now, only on the crowdfunding campaign, it will cost even less. A lot less than the $2 ,500 we paid to get this one made. So support us now and help us bring the Kemos everywhere. Now you understand why I said easy to understand. So I'll start with who are the audiences you can see. His English is not as good as mine, right? We're trying to figure out who can buy it, who needs it, who is going to pay for it. So we are open for ideas. You heard two of them here, but please, who can be markets for us, prospects for us? Travelers, what do you mean by travelers? Okay.

So that's just for use as you travel, right? Campers. Campers, good. What else? Campers, travelers? Moms. Right. Kids for the school. For school, for kids, right? Teachers. The teachers, of course, right? Soldiers. Soldiers. Track drivers. Yeti. Yeti. Yeti? Yes, a company that makes a mark. An unstoppable mark. Okay, what else? That's a great idea. Building builders, I don't know how to say it, but workers, they build a building. With others, they want black coffee. Great. All right. We have some more sophisticated ideas. For example, people who travel to countries where you cannot drink the water. So you would need to sterilize them. That's the best way to sterilize, obviously, is to boil them. What else? Right. So as you can see, the whole world can use it, but there are very different market segments, right?

Mothers of babies and people who travel to India are not exactly one and the same. So the problem that we are facing in here is what kind of branding can we do or as a philosophy that will work for all of these markets. Any ideas? Yeah. So you know what this little video is? This little video is all about. Interestingly enough, Javier wanted money and also wanted to test his idea. So he produced this video and put it on Kickstarter and sold 1 ,300. 1 ,300 bottles like that, thermoses like that were sold. Not produced yet. What was the price? $89, yes. It was sold on Kickstarter, which is international. Now, do you think that $89 is a good price? It's a bit expensive. Okay. Do you think we can produce it for lesson 20?

Well, we can produce everything for lesson 20 except for the batteries. The batteries are expensive. And since the whole idea here is the batteries, so we have a... Well, that's physics. The ball of water, you need one kilocalories for a liter of water for one degree. Yes. Right. So $89 in my mind is expensive. It's not enough in order to make money. So what do you do if you have a product that you think you need to sell for more? Exactly. You find the audience that will pay for more. Like I remember when I was young, having a stroller cost, I don't know, $200. Now it's $20 ,000. I don't know what the strollers do. They fly, they jump. I have no idea anymore. But here's a great example of a product with four wheels and nothing else that costs ridiculous amounts. Exactly. Right.

So we need to build the brand. How are we going to build the brand for this product? Come up with ideas. How do you target the audience? Give me examples. Let's be specific. For people. You know, it's something that, there was a product before, we gave an icon and everyone is buying an item. So no one needs an item. Okay. Influencer. Influencer is a good idea. What else? How else can you get to audiences? Yes, even. That's a good idea, except that Kickstarter, I think, allows you once a year. Any other ideas? How do you go after this? Yes, Daniela. That's interesting. By the way, by the way, if you think about it, people say, well, it's expensive. It is expensive. You want to sell it to everybody.

But if you target audiences that already pay a lot of money, I brought the strollers on purpose, because here's an example of a product that you can buy for $200 and people are willing to spend a lot of money for, I don't even know why. So if you go, for example, after bikers, nowadays, if you want bikes, again, it's like in $10 ,000 bikes. For what? I don't know. So if you go after a market where people are used to paying high prices for basically same products, then they wouldn't look at it and say, this is expensive. I don't say that's for sure, but I'm just showing the logic. When I was in America, one of my investors had a yacht. And he told me that there are two happy days in the life of a yacht's man. Well, I didn't consider that. Exactly.

And he said, you see this screw? All right. Do you see this screw? He said, when I go to a hardware store, it costs like, you know, five cents, but if I go to a yacht store, it costs $5. Why? Because it's for a yacht, right? Right, exactly. So obviously at this moment, the strategy we want to take is to sell it at a much higher price because it's expensive to build. It's going to be probably in a $40, $50 to build at the beginning. I'm not sure you can say because you're from Texas. Why? All right. Because yeah, whatever you call it. Right. Because yeah, you can warm up many other things. Right. You can sell a lot of, you know, capital or money if you just free -warm the water. So I wouldn't say it's a gadget. Why not?

Because it has a wider audience than, you know, a gadget. What's wrong with a gadget? I'm not insulted, by the way. No, but I'm... No. Okay. Call it, you know, I think it should be targeted to the audience that is not sensitive to the company. That's correct. It's here, for example. You know, sailors. Sailors. Skiers. Anybody in sports who's willing to spend enormous amounts of money for their sport I think it's going to be a good market. Then I would just, I would buy, I would join forces, I would partner with a very, you know, specific brand. I will not try to market it. Why not? Because I will get the... It's exactly like Oracle selling, you realize. After they bought it. I will try to sell it to the... To the Israeli market. Possibility. So let's think about...

I will focus the challenge, okay? We want to go and do a branding campaign for very little money to see what sticks. Any ideas? What about... Just a second. You wanted to say something before. I wanted to say, holding a deal with such a... Store... With a neighbor who's not who's said for a comic book. Why? You're right. This is about... They will say for it. I don't understand. Everyone gets one like this when you buy it now. Okay. Interesting. אג Valve חיט, אחר כתי ותגובילים, אחר כתובילים‏osoתזדהה, י', costing 10 ק fellas, then continue 5 hours. This is some kind of activity, if you can connect this order to a specific activity, it can work very well. Because if we connect, if I need that, I can get it here. Corporate gifting. קופרית. קופרית קופרית, נכון?

אוקיי, אז לתת לך בבקשה, אנחנו עושים על זה קצת. אז דביר דיד. נכון? נכון. נכון. As you can see, there are a lot of ideas and the question we are asking ourselves is how do we test these ideas to see what sticks, you know, what can get us to sell the product for $200. So here's the idea and we did a lot of research and came up with some interesting fact. Do you think you can describe it in English or not? Not yet? Okay. So follow what I say, if I say stupid things, stop. All right. So we looked at the obvious, you know, Facebook, putting ads in Google, you know, like anybody who is looking for a pump for breast milk. Okay, why don't we advertise that for that or things like that?

So you look for the correlated activities or products and you can advertise on these things. That's, by the way, is a really simple way. We did it in some other experiments that we did and it usually works. And what you can do then, let's start with it, which is the simplest. You just go after Google and you say anybody who is looking for a breast pump, we're going to advertise this. Then we will see how many people click on the ad. And then when they go to the landing page, we have ABC testing, three different price points. 199, 159, or 49, and 99, and see the price of elasticity. Now, in order to check it, you really want to take them all the way to purchase, because just clicking people do.

But you really take them to purchase, they fill out the form, when they click on it, we say, oh, we are really sorry, we can't take your order right now, we are overwhelmed with orders, we have your name on the file, and we will call you the moment we get the new inventory, which will be new inventory, by the way, we have no inventory service, we don't even lie. So that is very important. When I talked about business models to test this, we can talk about people who travel to India and want to ask questions about water in countries like that. You can connect it to a lot of queries easily and see which ones you get the responses. So that's idea number one that we are going to test.

Idea number two was to do something viral, because as you can see in this video, it's funny. So it's relatively easy to do funny situations. You know, somebody drives, he gets stuck in the middle of nowhere, the car dies, and he's in the middle of the night, and he's stuck there, and he dies for coffee or tea, and he can do that. So we are thinking about producing some really funny, short, half a minute videos, and that's where DR came up with the idea. Let's put them on TikTok. I don't see enough young people in here to appreciate what I just said. Yeah, there is something. Not enough TikTok. Yeah, I have to admit that I'm dying to try to, you know, just to understand what the whole world is talking. You have to figure it out. But why TikTok? Why TikTok?

So if I make, if I say stupid things to correct me, okay? So it turns out that the algorithm of TikTok is pretty interesting. When you put a new content on TikTok, what they do is they take it and put it in front of 500 or 1 ,000 random people to see what happens. Start with 20. Start with 20, okay. And basically what they do is they learn if people like it or don't like it, and the more they like it, the more they proliferate the viewers. Okay? So to produce a video like that, if you don't need the high quality, remember, it's on the phone, it has to be funny, but it doesn't have to be rocket science. A lot of the movies that you see viral, you know, are just funny clips. And then see what happens.

See which directions it goes, you know. So viewers very concerned about what happens if we suddenly get hit by 500 million viewers. I said, where is the luck stuff, right? So I would be concerned, I would say, yeah, we're lucky. But clearly just to test, and the whole idea is to test it at very low costs. Oh yeah, because they click, we want them to go and purchase. You don't specify the portion of TikTok. You can't, as far as I understand with TikTok, it just goes, you know. But then how do you know? You, how do you know? Because when they click, no, I say that what we want them is to purchase. If you want them to purchase. Yeah, yeah, yeah, yeah. Right. So we can learn a lot of that stuff.

We can also do the same with Facebook, slightly more rigid, but can be done as well. So that's kind of the idea we're currently exploring and thinking about. And when we start to realize, you know, who might be the people or the audiences, the prospects that show the highest affinity to respond, that's great. And second, price points. Business model, remember. Let's assume the product cost to produce $50. And we set it to $100, so we make $50. If we sell it at 150, we doubled our profit. If we sell it for 200, we tripled our profit. So bear in mind with products that have a cost, you're extremely sensitive to price. Because it costs a lot of money to produce, you have issues with inventories. It's very expensive to do.

So there you need and use, some of you said the price has to be five times more, you know. That's kind of the rule of thumb when you have a hardware product or a physical product. I work with five times. No, I'm serious. That's the rule and I'm in card scan. Toys, I don't know what you pay for anyway, but I built card scan, which was a hardware product and the rule that we used was five times the cost. But kind of between three and five, I would say, to be able to make money, not to be rich, but just to make money. Okay, so that's what it is. We're running out of time. Any questions? Can you cut the outside of the bottom? Because people that can pay are more willing to pay if they can have a big drawing on it.

They can trade on the map. How they do. But you bring me... You have to show them that they can do it. Because otherwise, I can never click. So... We were looking at... Dvier was looking at me. At another idea, which I think was very interesting. When they're now working on the final design or production, they realize they can put it, let's call it a CPU chip inside the thing which can be connected to Wi -Fi and Bluetooth and can also measure the temperature. So in essence, they can produce a high -end bottle that you can warm the water to a specific temperature. So for example, if it is for a baby, you want it to border to be 60 degrees. That's it. Not 90, not 80, you want 60 or 52 .5 or whatever it is. And that suddenly makes it, wow.

I can really measure the temperature in advance and set it up correctly. So this would give us much more flexibility to do things with the addition of that little instrument inside it. So these are the kind of ideas we are thinking about. How can we produce a product at $199 and have also a product at the lower end, let's say $129, but there is a real differentiator even though in the cost, it's the same cost to us. Any more questions? Yes. So that comments question. Yes. One is that, you know, my, my tendency, at least at the point, would go to applications which are not very demanding. Baby is a problem. Medical is a problem. Army is a problem, in my opinion, because of stamina. All this conversation is very difficult, very tough. And I would go to the service. Go right there.

And there's one thing. Second is, what is the barrier to entry? That's an open question. Now, these are all good questions, which is why I always said branding first, try to sell, really sell, see what happens. Because we can sit in here and talk and talk until we try it and try it at a very low cost and see results. We don't know. Chances are, in a few months from now, we will stand in here and tell you a story that is not even related to what we are talking now, because as we experimented, we discovered other things. The key is, as Eyal said, is to open and listen to the market. They will tell you. They were great. That's why I'm talking to him. If we had Kickstarter and sold two units, we would not have been talking.

So probably we are touching something interesting. We are touching something that people respond to. I think the video was really well done. So I just wanted to share with you. So there will be homework on this week's lecture. We will send it to you. And this time, it will be the same exercise for everybody. Please send the responses. Those who will not be able to pass.