

“When you’re ready to scale, it is all about execution. This has major implications for how you organize your company and how you manage your team.”

**UNDERSTANDING YOUR ECONOMIC MODEL:**

Your economic model is a lot more than just your simple financial accounting statements. When companies are scaling, things become more complex. You must understand the difference between creating economic value despite the losses and when you are just losing money.

Keynote Lecture Notes:

**Impact Question:** What will you do differently as a result of what you’ve learned from this module?

## Questions for you, the entrepreneur

How much revenue do I need to cover my fixed costs, such as rent, equipment, utilities, payroll, etc.?

How much does it cost me to acquire one new customer? For example, if I give away 1,000 free samples of my soft drink at a cost to me of 20-cents per sample and, in turn, sell 100 bottles at full price, then my cost per customer is  $(\$0.20 \times 1000)/100$  or \$2 each. What is my customer acquisition cost (CAC)?

Calculating my LTV: How much revenue does a typical customer generate for me during the full amount of time they are a customer?

When I divide my LTV by the CAC, is the answer one or less? If so, this isn't a profitable economic model. If it is greater than one, how many customers do I need each month to cover my fixed costs?

How much can the company afford to lose in profits in order to ramp up our scaling efforts?

How high does my gross margin have to be in order to offset losses and become profitable?

How much extra can I afford to spend in order to reach the revenue growth?

What steps can I take to make my model profitable? Reduce acquisition costs, production costs or fixed costs? Increase prices? How will a higher price affect our competitive position in the marketplace?

## Questions for the team

1. Do we understand the terms CAC and LTV and how they relate to the financials of growing this business?
2. What metrics and ratios must we be aware of in order to plan effective growth strategies?

## Additional Resources from [www.KauffmanFoundersSchool.org](http://www.KauffmanFoundersSchool.org)

<h3>Readings</h3> <p>Notes:</p>	<h3>Founder Genius</h3> <p>Notes:</p>
<h3>Other Related</h3> <p>Notes:</p>	<h3>Tools</h3> <p>Notes:</p>