MEASURING FOR HAPPINESS

A consumer report on the metrics that matter

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Contents

Meet the Consumer team at Octopus Ventures

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If you are a founder building something in the space, and want to learn what your metrics mean, how to improve them, or simply tell us why your company is amazing — we would love to hear from you.

Alliott Cole

Alliott joined Octopus Ventures in 2008 and became CEO in 2017. Over this time the team has backed more than 120 entrepreneurs and has grown to become one of Europe's largest and most active venture investors. Over the years he has worked closely with many of the Octopus portfolio, notably Graze, Rangespan, Magic Pony, Tails.com, and Zoopla. Alliott currently serves as the Octopus board representative at Secret Escapes, Cazoo and Big Health.

Rebecca Hunt

Rebecca joined the Ventures team in 2012, and focuses on the assessment of investment opportunities, deal origination and ongoing portfolio management within the Consumer pod. Rebecca has experience of working with a number of early stage businesses across a range of different sectors and has led investments into and served on the boards of a number of investee companies including Elliptic, Trouva, Uniplaces, Outfittery, Tails.com and AppearHere amongst others.

Karan Metha

Karan joined the team in 2018 and focuses on consumer opportunities with a keen interest in gaming, mobile-first applications (social, commerce, productivity), consumer automation, AR applications and the future of work. He is based in the New York office where he also supports the US growth strategies of Octopus Ventures' portfolio businesses. Prior to joining Octopus, Karan founded Venture Project — a platform to help tech founders in New York with growth, fundraising, and customer/talent acquisition.

Millen Wolde-Selassie

Millen joined Ventures in 2020 to focus on investment opportunities in the consumer space. She is particularly interested in the transformative power of consumer companies on society at large.

Prior to Octopus, Millen bootstrapped a retailer offering gifts for expecting mothers and new parents for several years.

Matt Chandler

Matt focuses on deal origination, execution and due diligence activity.

Prior to joining Octopus Ventures in 2021, Matt was a Commercial Associate at True, a retail and consumer sector specialist investor and innovation consultant. Matt focused on early-stage investments into both consumer tech and B2B software companies, and consulted multi-national retailers on digital strategy. Prior to True, Matt co-founded Mojo, a consumer SaaS platform for the beauty and wellness industry

Introduction

Unit economics have a murky brand in the world of early-stage consumer startups. Being fortunate to speak with so many early-stage consumer-tech founders we noticed the same question coming up: which metrics really matter? For this report, we hit pause on looking into team, product, timing, market, secular trends and demand profiles. Instead, we're lifting the lid on the metrics that have something important to say.

The first challenge we came up against is that there are hundreds of potential metrics to choose from (we started with +150 at the outset of this report). The question for us was which are the metrics of real consequence when building a scalable consumer business, and what does 'good' look like?

Due to the absence of any homogeneity in the space, there is no one specific answer to this question — from business models and ways of operating to pricing products or services. Still, the hope is this report provides some transparency of thought.

> This report provides the transparency entrepreneurs are looking for to better understand the key, fundamental metrics that matter most to investors; helping you to secure investment and take your company to the next level.

— Alliott Cole — co-CEO,
Octopus Ventures

How we created this report

We spoke to early-stage consumer investors to understand how they think about metrics. We also canvassed startups and scaleups to see how this view compares to reality, and to find out about their own approach to metrics. This report is, therefore, based on qualitative research and should be seen as a synthesis of our collective insights. We welcome feedback and input for future reports!

Speaking with operators and investors with direct experience at consumer businesses, including:

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depop

KatKin

secret escapes

ManyPets
Pet Insurance

deliveroo

This content and analysis was created in partnership with Unpitchd

UNPITCHD

Business model design is too often an afterthought in the early days of a new venture.

Most startup founders and venture builders obsess about the desirability of their proposition, only to find themselves revisiting their business model design as and when their offer doesn't scale.

A common trait of successful startup founders, however, is their ability to force business model thinking early on and plan their growth with intent. We hope that *Measuring for Happiness* can show all founders how.

— Stephanie Renucci, founder and CEO of Unpitchd

CHAPTER 1

The power train

Core drivers

Growth Loop deep dive

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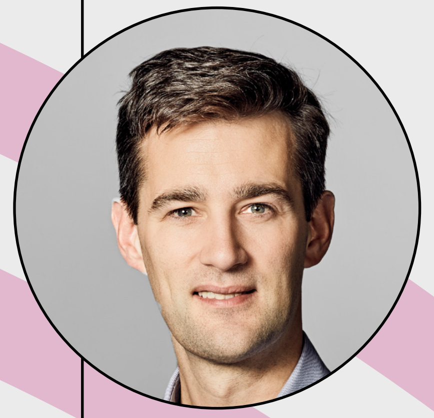
Across our interviews we found three core drivers that cut through the noise of metrics, and gave solid indication of potential long-term viability across all forms of consumer companies. We call this the Power Train.

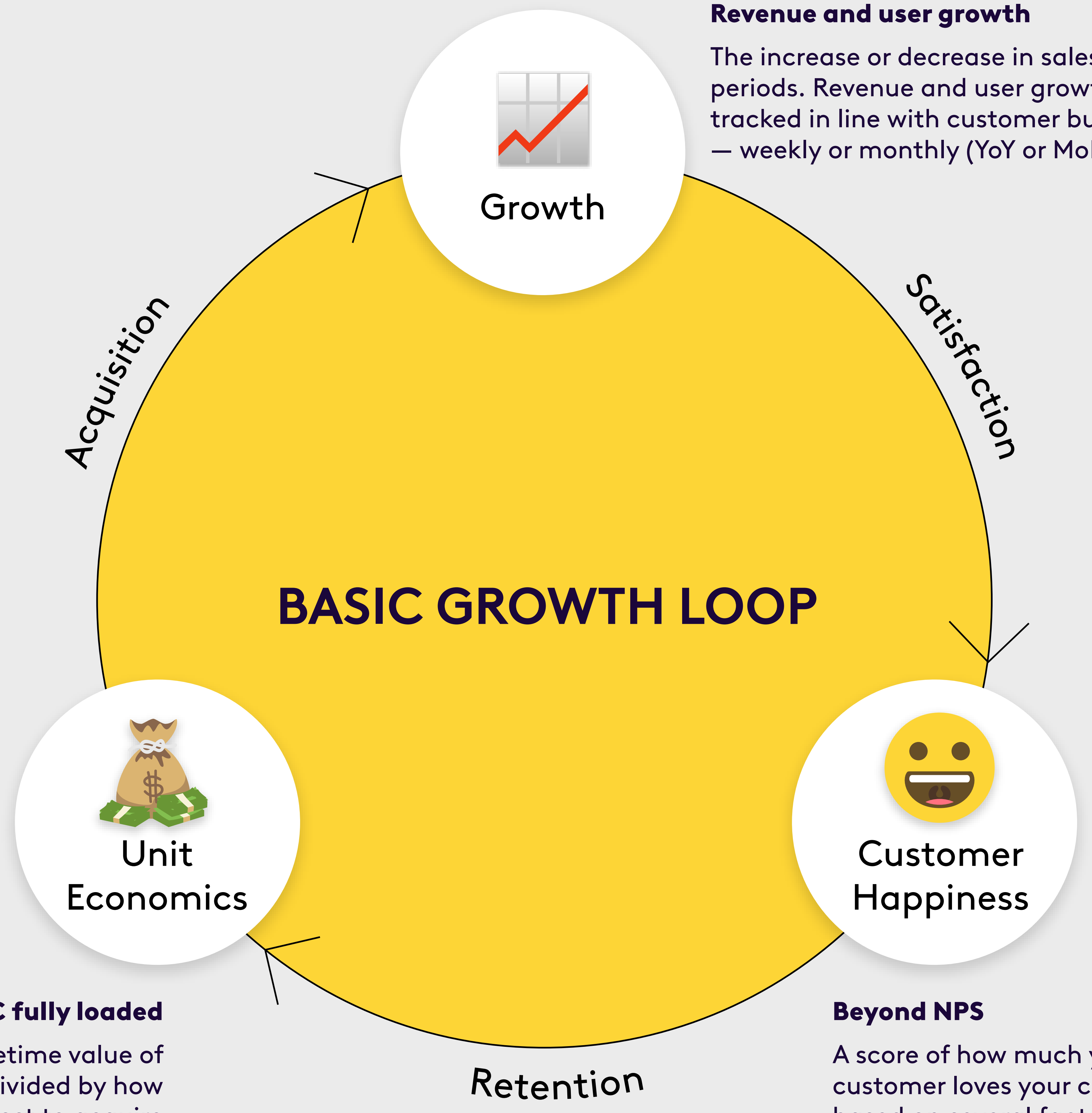
The three fundamental drivers to the Power Train are headline Growth (measured by either revenue or users), Customer Acquisition Cost (CAC) payback, and Customer Happiness. This is supported by a core engine of Retention, which we will come on to shortly. We dive into each of these areas in this report.



A lot of time we focus on the metrics that drive outcomes, such as how many impressions there are on transactional pages, as these help point towards goals, but ultimately, as investors, we are looking at the outcome metrics themselves as they give the most rounded picture of what's happening underneath the hood.

— Alliott Cole, Co-CEO, Octopus Ventures

The Founder's Growth Loop: the OV take on calculating the fundamental trifecta of metrics



Revenue and user growth

The increase or decrease in sales between two periods. Revenue and user growth should be tracked in line with customer buying patterns — weekly or monthly (YoY or MoM).

LTV / CAC fully loaded

Projected lifetime value of a customer divided by how much the cost to acquire

Beyond NPS

A score of how much your customer loves your company based on several factors

Unit Economics 1:

Before we get to CAC Payback, here's a fuller example of a Unit Economic breakdown. We'll use JOKR, a Qcommerce business based in LATAM and the USA as a case study.

It's important at first to contextualise how your competition works, which in this case, means looking at the unit economics of traditional offline grocery, and the demand profile or secular trends that innovative businesses play into. The JOKR data, for example, demonstrates that consumers want to shop twice a week (not monthly) as they become more spontaneous, and they want access to local produce.

A look at the core metrics of JOKR, presumed to be best in class despite lack of maturity (the company is 10 months old).

Note these are ballpark unit economics:

- Average Order Value: $50
- Frequency: 4x per month
- Margin: 40% GM in mature markets
- Contribution margin #1: $20
- Pick and Rider costs: $6 (or 12% of AOV)

These figures demonstrate that JOKR is creating a way for consumers to enact on a behavioural change: higher frequency grocery shopping, in smaller baskets. They're able to do this with operating margins that means the company could become self-sustaining in the future.

Ballpark metrics & ways of driving efficiency:

Percentage of products directly procured: 40% (significant margin driver due to removal of middle-man layers in the grocery market).

Average time to deliver: 15 minutes.

Driver drops/hour: 3.7 (in best markets).

Retention drop off moment: delivery +30 minutes.

Data: knowing what products customers want, and how that changes per hour in the day. Best procurement leads to best products and reduction in wasted stock.

Proportion of stock directly procured is the core driver of gross margin due to so many middle-men in the food supply chain.

Driver utilisation is a core driver of unit economics. Critical therefore to move the supply closer to the demand (traditional supermarkets are constrained here), and to move the delivery polygons closer together.

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Unit economics 2:

The Casper mattress case study, from their S-1. Unit Economics proving tough, even at IPO. Read more from Accelerated. Physical stores, sales / sq foot: $1,600 (other mattress stores are at ~$1,000).

At its core, understanding the unit economics of consumer startups boils down to an analysis of the lifetime value (LTV) of your customers, compared to the customer acquisition cost (CAC). It's useful to track LTV/CAC across each marketing channel, to best identify where the most profitable customers are coming from.

"At KatKin, correctly understanding and calculating the inputs of LTV/CAC, both overall and at a channel level, has been critical for us to scale growth profitably."
– Brett O'Farrell, CEO at KatKin

Why it matters

We are looking for retention of users after the first pay period, as this suggests users are discovering value in the service for the long-term.

How to calculate it

While it's relatively straightforward to calculate LTV/CAC for fast-paced businesses, LTV can be harder to calculate for businesses with lower order frequency. For that reason, where possible, VC investors prefer to look at a 3-year average view. CAC should always be calculated "fully loaded," inclusive of all marketing and sales costs, and inclusive of the cost of retention. See above for an example of how we might calculate it.

An LTV/CAC <1.0 would mean the company is failing to break even. Some common causes of <1.0 LTV/CAC are ineffective budgeting, an unclear target market, and an overly broad strategy (leading to inefficient allocation of capital).

CASPER ESTIMATED LTV/CAC CALCULATION

Stated AOV	$765
Less returns	£(38)
True AOV	$727
Repeat Rate	16%
No. of purchases per customer	1.16
Revenue per customer	$843
Gross margin	50.7%
LTV	**$427.60**
Marketing $	$422.8M
No. of customers	1.4M
CAC	**$302**
LTV/CAC	**1.42**

LTV/CAC RATIO — SIMPLE APPROACH

Total annual recurring revenue (ARR)	£1,000,000
Total no. of customers	£10,000
Average revenue per user	**£100**
x Gross margin	80%
Gross contribution per user	**£80**
Annual churn rate	10%
Customer lifetime value (LTV)	**£800**
Sales & marketing spend	£40,000
Total new customers	1100
Customer acquisition cost (CAC)	**£363.64**
Implied LTV/CAD	2.2x

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CAC PAYBACK
(fully loaded)
=
CAC / AVERAGE REVENUE PER USER
x
GROSS MARGIN (%)

We've seen successful Series A funding rounds for companies with a <2x LTV/CAC, as long as there's been a pathway to a >3x LTV/CAC within/over the next 18 months. Generally, the investors we spoke to like to see LTV/CAC of +5x.

Long live LTV/CAC! Welcome CAC payback.

In the early days of a company it can be hard, if not impossible, to tell how sticky customers are likely to be — which makes the LTV largely arbitrary. Instead of referring to the LTV, we tend to look at CAC Payback. This is the number of months, or years, it takes to earn back the cost to acquire each customer. In this sense, CAC is viewed as a debt, which allows us to establish the break-even point of a customer.

It's calculated as CAC (fully loaded) / Average Revenue Per User x Gross Margin (%).

A shorter payback period helps to reduce the CAC lost from customers who churn and indicates likely profitability of the company. In instances where companies have relatively high churn, funds will often ask when 2x CAC payback occurs. Our VC-interview results show that 3–6 month CAC payback is exceptional, 6–12 is OK, and 12–18 needs attention. With that said, we have still seen consumer subscription companies reach significant scale with +18 month Payback (due in part to low churn and exceptionally high growth).

It's important that consumer founders triangulate their Price (AOV), Gross Margin, and CAC as they all impact on the CAC payback.

Our focus has remained on the same metrics: growth first and foremost, customer satisfaction and a fully loaded CAC. But as we grew, we've started focusing on unit economics more and accepted lower growth rates.

— Guy Farley, Co-founder and Chief Technology Officer at ManyPets

Revenue and User Growth need little explanation. Our research and interviews demonstrated that consumer companies (both subscription and transactional) are deemed top performers at 20% MoM growth. At that rate, a company will grow almost 9x in a single year. See the power of compounding growth below:

MoM growth rate	10%	20%	50%
Month 0	1,000	1,000	1,000
Month 1	1,100	1,200	1,500
Month 2	1,210	1,440	2,250
Month 3	1,331	1,728	3,375
Month 4	1,464	2,074	5,063
Month 5	1,611	2,488	7,594
Month 6	1,772	2,986	11,391
Month 7	1,949	3,583	17,086
Month 8	2,144	4,300	25,629
Month 9	2,358	5,160	38,433
Month 10	2,594	6,192	57,655
Month 11	2,853	7,430	86,498
Month 12	3,138	8,916	129,746
Annual growth	314%	892%	12,975%

K-Factor

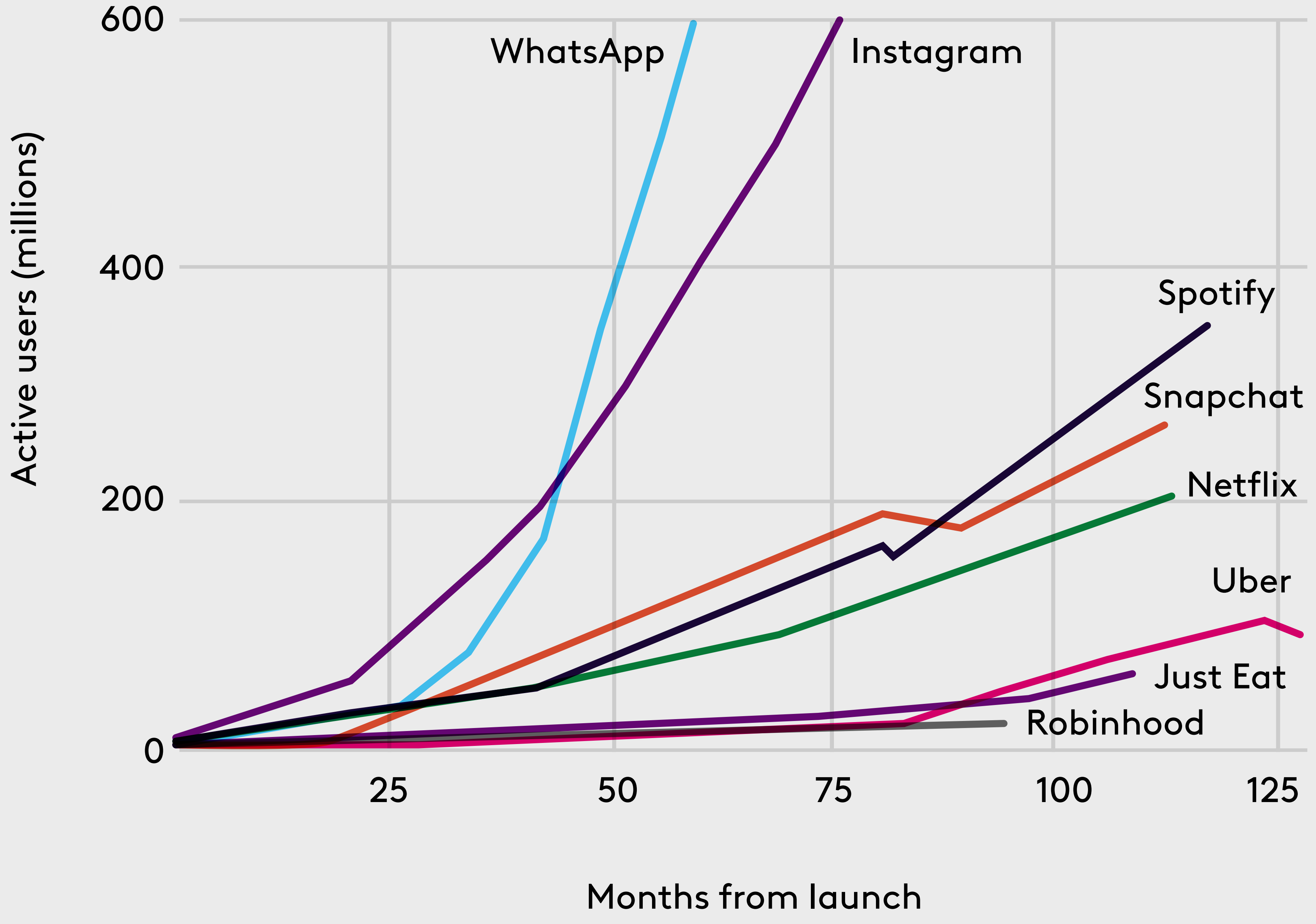
The K-Factor is a metric for virality, of an app, website or customer base. It's also a useful way to measure the organic growth of a company. Put simply, the K-factor number indicates how many new users a current user is referring to your app or website. Generally speaking, any K-factor greater than 1 is evidence of virality.

A SIMPLE WAY TO CALCULATE YOUR K-FACTOR:

Total users:	1,000
x Average number of referrals sent per user:	25
x Average % of referral sign-ups:	10%
New users	2,500
K-Factor	**2.5**

Growth curve in household names

Companies' active users from launch



Consumer companies can display uniquely fast growth in user numbers, versus other categories. The chart above demonstrates the speed at which various household consumer companies reached +200m active users post-launch.

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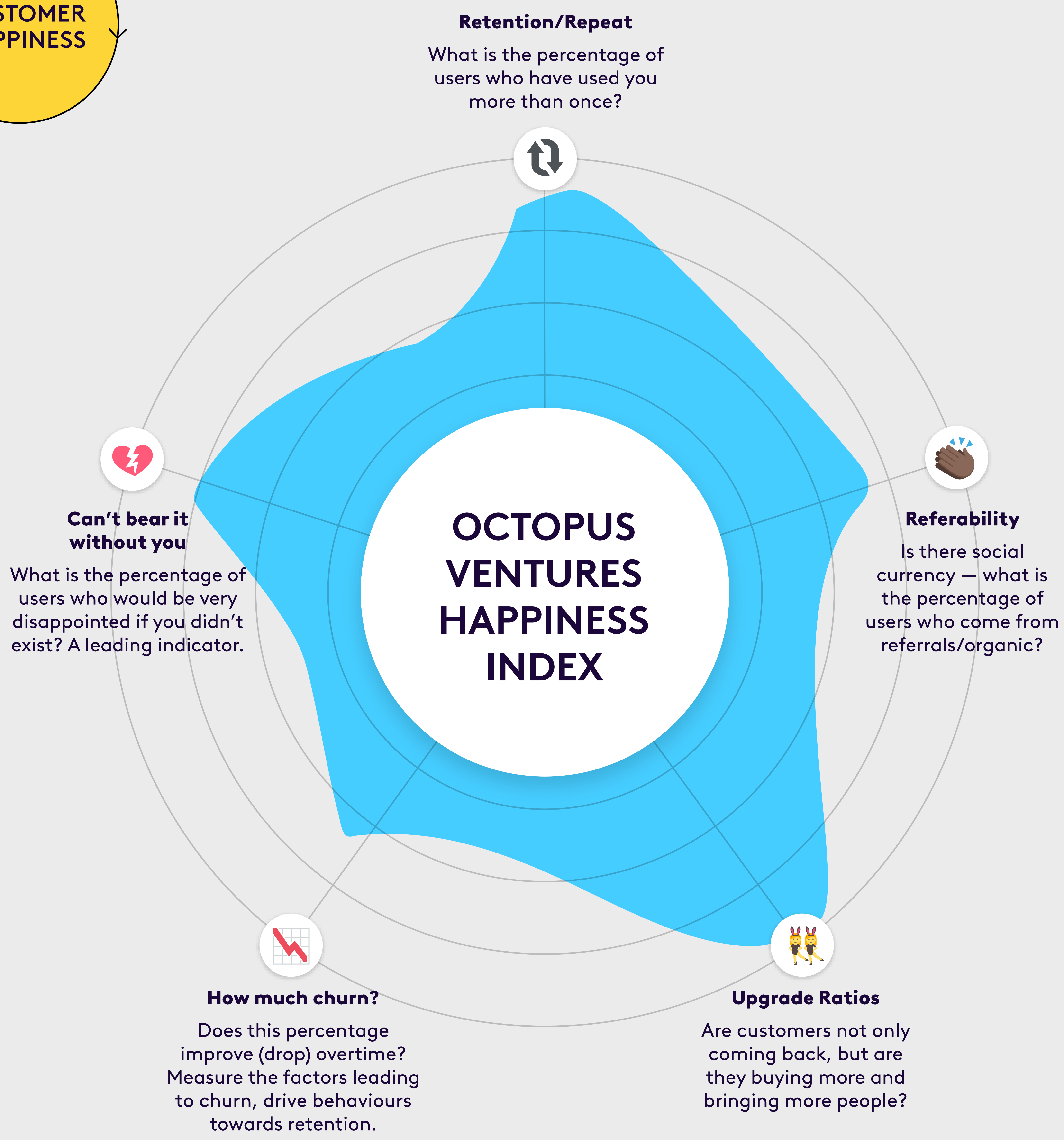

The Octopus Ventures Customer Happiness Index

While NPS is the most widely used metric to measure how your customers feel about you, it only tells part of the story.

The Octopus Ventures Customer Happiness Index combines several important metrics and has been designed to help founders dig deeper into their relationship with customers.

"We kept hearing that investors are looking for signs of customer happiness, while founders were doing their best to find data points that might infer their customers were indeed happy. In the end it would often come down to a largely subjective feeling ascribed to a business based on a few pieces of evidence. Some of this was numerical, but it still felt like more of an art. We wanted to try and turn the art into a science.

"We spoke to lots of other investors, asking them what indicators they looked for, and combined those insights with our own knowledge to create a 'happiness' index. It's been designed to allow founders to understand whether customers are genuinely happy — and prove it." — Matt Chandler, Investor, Octopus Ventures

In conversation with Matt Hirst

General Partner at West Ventures

Matt joined West Ventures from Google, where he was Global Head of Brand Experience alongside the Search, Maps and Translate teams. Prior to that, Matt spent nearly a decade at Red Bull, in London and Los Angeles, leading the brand's iconic work in action sports, music and events.

How should early stage founders be thinking about their brand?

The ambition should always be to build a brand that people fall in love with. And you want them to be more in love after year 10 than after year 3. That's true customer love. We don't try to start human relationships with the intention of measuring it. If we did that, they would likely fail. Why do we hold brands to different standards.

Is that how Red Bull thought about it?

Red Bull clearly look at sales and how to increase revenues. But in order to become the brand they are today, they had to suspend reality and build something that made sense to humans, not on paper. While we would always be able to see the immediate impact of something like the Red Bull AirRace on sales, its real value was proven in the weeks and months after the event itself.

The best way to understand if you have customer love is by understanding how many people hear about you from a friend, rather than paid advertising.

When should you expect to see a return on your investment in brand?

Brand pays out many months or years later. In the long run, if you can build a good product and the best brand, you will win. Airbnb wasn't a new concept, but it was a human brand.

Can you measure customer love?

The best way to understand if you have customer love is by understanding how many people hear about you from a friend, rather than paid advertising, for example. The metric here, if you had to make one, is organic referral over time. If people share your brand with their friends, they are probably on the way to customer love.

Does this affect how you build your product too?

Yes absolutely. After they've solved the customer's problem as quickly as possible, engineers should focus on creating joy, or whatever the brand's essence is, and crucially shareability.

But can startups do this on a tight budget, with a CFO to answer to?

You don't always have to spend big, but you might need to get creative. Red Bull launched in new cities with a Red Bull car with a giant can on it. It went around looking for tired people and gave them a can. We couldn't measure its impact, but people took pictures everywhere it went.

GROWTH LOOP DEEP DIVE
RETENTION

In conversation with Yoann Pavy

CMO at Nude | ex Depop, ex Deliveroo

Retention is the centripetal force at the heart of the Growth Loop and describes the extent to which your customers continue buying your product or service. We spoke to Yoann Pavy, a growth marketing expert, formerly of Depop and Deliveroo, to understand why it's so important and how founders can maximise its power.

Today's businesses can't focus solely on product, they must think about how they fit into their customers' lives and create engaging, entertaining or educational content across platforms.

Nude

depop

deliveroo

Why should you care about retention?

Without retention, everyone will eventually stop buying your product or service. Poor retention leads to an exponential increase in CAC and a slowing business, which places a reliance on having to supplement it with acquisition budgets.

We were always completely obsessed with retention at Depop. It's transformational if you can get it right, as it impacts everything else. An improvement in retention can boost your LTV significantly, which allows you to invest more in customer acquisition, creating a positive cycle of growth.

Retention v. acquiring new customers?

Retention and CAC shouldn't be seen as a trade-off. Retention is optimised by the product, growth and engineering teams, whereas acquiring new customers is largely a focus of marketing functions. Founders should focus on retention and paid acquisition early on to give a sense of CAC per channel, and where their most sticky customers come from. Make sure you have the right tracking set up so you can measure and model CAC and LTV, even if it's in a slightly rough form, and always create feedback loops with customers so you understand what to build to drive retention.

And how can you actually improve it? The number one way is to build an engaged community. It's hard to execute on, but it significantly improves brand love and retention. Today's consumer businesses can't focus solely on product, they have to think about how they fit into their customers' lives and create engaging, entertaining or educational content across relevant platforms. If you do this well, it can be an exponential multiplier of growth.

The community doesn't have to exist within your product, but if not, some information still needs to be extracted from the community that allows the brand to engage directly, such as an email or phone number. The best communities are owned by the community itself and not governed — though it's still possible to let them flourish in-product. Depop did this brilliantly by allowing individual profiles to build up their own social following in-app. Others do this extremely well on external platforms such as Discord or Reddit. The key is to know when an owned or internal community makes sense due to inherency (e.g. Depop).

Are there any short-term levers you can pull?

Doing the basics right is critical – i.e. testing notifications or other triggers at different times, typically at 7, 14 and 30 days, depending on the usage patterns. SMS and emails at regular intervals is one of the forgotten easy wins.

Then you can start to think about more innovative tactics. In the fintech world we've seen businesses like Cashapp create retention within the product using giveaways, where they literally give away money to bring people back to the app. In recent years, social platforms have increasingly been used to drive acquisition and retention outside the product. With a physical product business, such as pet food, the retention driver may be focusing on the palatability of the food itself.

CHAPTER 2

Finding your business family

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Introducing the four business models in consumer tech

While talking to investors and founders, it became clear that most people think about consumer metrics through the lens of different business models, with certain metrics taking on more importance depending on the model. We have taken those insights and used them to create a simple framework that enables founders to better categorise their business. It is vitally important that founders categorise first, prior to measuring metrics: context is everything.

While founders and investors sometimes used different terminology, there were four overarching models that came through consistently. For each of the business model types, we propose to explore what good metrics look like for successful consumer tech businesses.

- **Fast:** is a business with an order frequency of one month or less.
- **Slow:** an order frequency of more than once per month.
- **Mass market:** targeting the whole mass market. Mass market is defined as where ~100% of consumers shop.
- **Niche market:** targeting one part of the mass market. E.g. specific consumer or sub-segment.

THE FOUR BUSINESS MODELS IN CONSUMER TECH

E.g. allplants, Freddie's Flowers, Banquist, KatKin

FAST NICHE
Lower reach, specialist or premium products/ consumables

E.g. octopus Energy, Plenaire, BBM, Harry's

FAST MASS
Affordable and high reach product/ consumables

SLOW NICHE
Lower reach or premium, infrequent experiences or products

E.g. Chronext, Secret Escapes, Trouva, Farfetch

SLOW MASS
Affordable and high reach products and experiences, but infrequent

E.g. Cazoo, Patch Plants, Branch, Wayfair

CHAPTER 3

Measuring what matters for you

Designing your business model with intent

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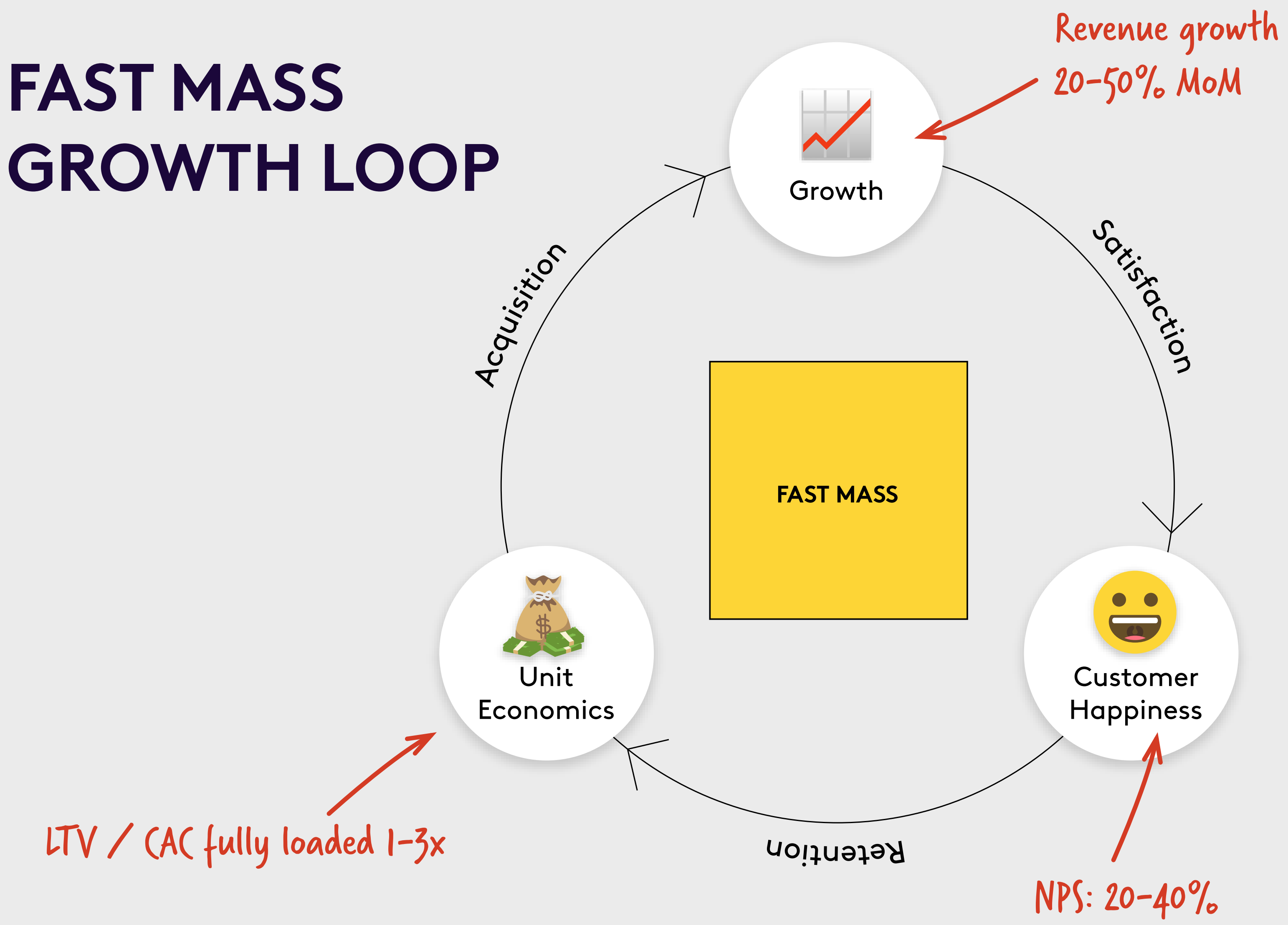
Fast Mass

Here we dive into each of the distinct business model families to better understand the core drivers and metrics.

"Founders need to understand the big drivers in their business that will move the needle over time." — Taos Grisdale, Investor, DMGT Ventures

What good looks like for fast mass business models: 'Fast Mass' are businesses which sell affordable consumables or experiences to a broad audience, at a high purchase frequency (e.g. beauty, food, pets, fashion). Iconic businesses in the segment: Harry's and Deliveroo.

FAST MASS GROWTH LOOP



Measure what matters: Fast Mass

- **Growth:** For high frequency, mass-market business models, investors see best in class businesses scaling +20% MoM in the early stages. It's critical to continue demonstrating strong repeat rates. Organic growth (though difficult to measure) is also a fundamental indicator that future acquisition costs could be kept in check.
- **Customer happiness:** with mass market appeal there is often more choice. Driving customer happiness and organic growth through word of mouth becomes all the more important for growth.
- **Unit economics:** In this business model segment, unit economics can spiral quickly as acquiring across many customer segments tends to lead to a low LTV/CAC. Investors may also examine other fundamentals, such as average length of subscription (for subscription-based business models) or retention.
- **Average Order Value (AOV):** Unit price tends to be low for Fast Mass, as affordability is often key to competitivity in everyday purchases. A key indicator of success could be the number of items that make up the AOV and how that improves over time (i.e. basket size). An example of good performance might be a business's ability to upsell more than one product, or demonstrate an increasing frequency of purchase.
- **Payback:** As retention tends to be lower in this business model, investors typically expect a quicker payback. If you can demonstrate retention through subscription, or other recurring methods, the expected payback time can be extended.

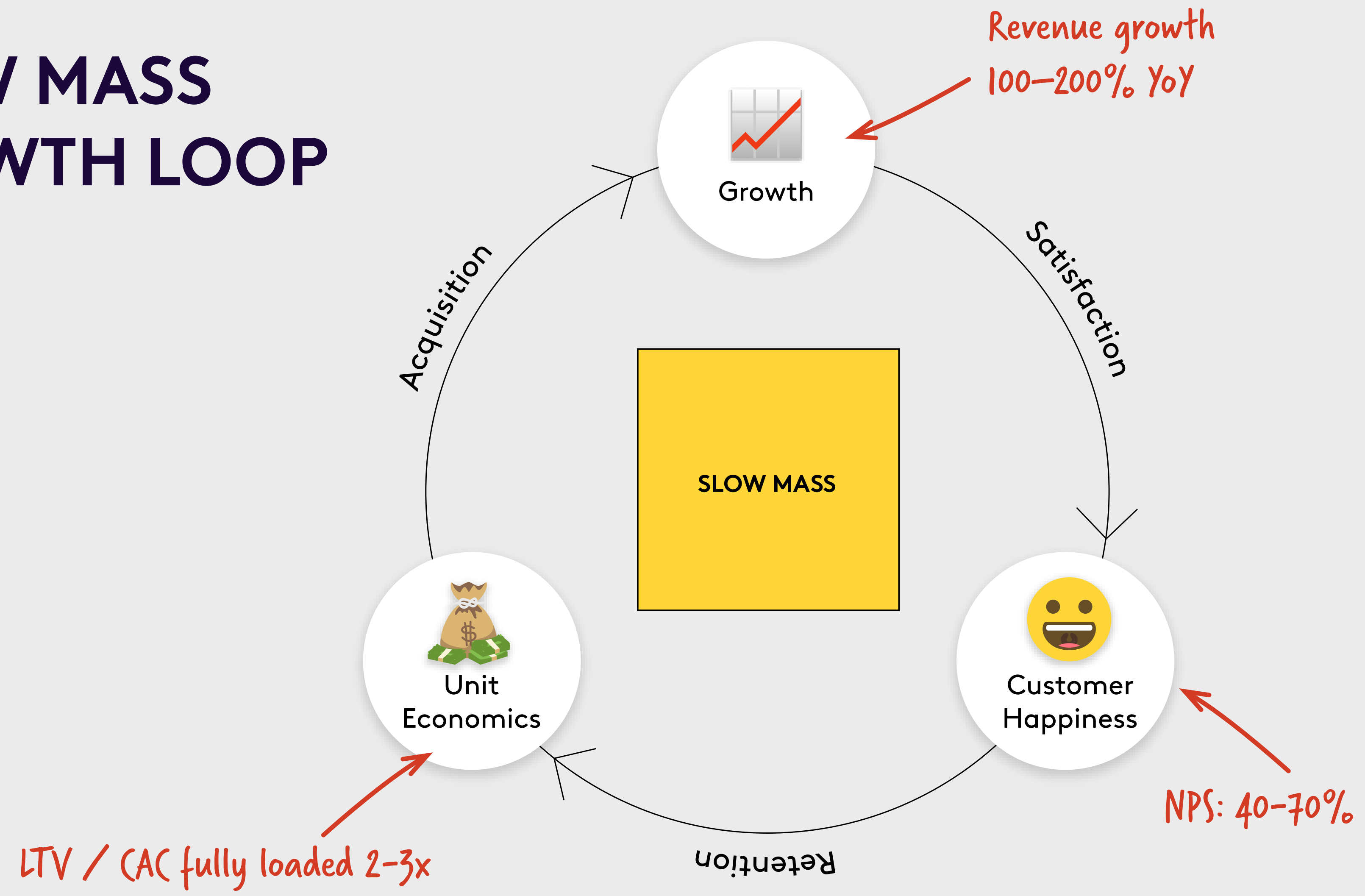
Not only are customer retention rates the ultimate signal of customer love, it's also an important factor determining the addressable market size needed to support scale. If companies have lower retention rates, there's a greater requirement to top up churned customers and therefore the number of cumulative customers needed to reach scale can be very high. We also look for high frequency, naturally recurring products - you can't force customers into behaviours they're not used to.

— Helena Barman, Investor, Eight Roads Ventures

Slow Mass

What good looks like for slow mass business models: High reach/slow-paced businesses sell affordable or high-reach products and experiences at a low-purchase frequency (e.g. home furnishings). Iconic business in this segment: Wayfair.

SLOW MASS GROWTH LOOP



Measure what matters: Slow Mass

- **Growth:** A sustained pace of growth is essential to a successful business in this segment. Investors will expect a 100-200% YoY growth rate for earlier stage businesses. They are also likely to investigate acquisition metrics to understand whether the customer pays back on the first purchase.
- **Customer happiness:** In slower business models, the fundamental measures of customer happiness are referability and organic acquisition. Loyalty takes longer to pay off in this business model segment, which makes retention less critical.
- **Unit economics:** Unit Economics are trickier to calculate and optimise with less frequent customer purchases. Investors will often expect to see a reasonably high LTV/CAC multiple early on. CAC payback on the first purchase is an ideal scenario.
- **AOV and margins:** AOV and margin are an essential indicator in slow mass businesses. While the offer is more mass market and affordable, the AOV and margin need to be high enough to offset very low frequency purchases, for example in the home furnishings market.
- **Payback:** Consider speed to 2x payback in this model. Some products payback quickly, but if they don't repeat for a long time, then investors want to see 2x payback.

> With slower-paced purchase frequency, we often see companies looking to offer value add services or products that complement the core offering, and drive customers to interact with the brand more frequently. Organic customer acquisition is also particularly powerful as it offsets any paid CAC, which can be slow to payback given the low frequency of purchase.

— Matt Chandler, Investor, Octopus Ventures

MINI CASE STUDY
OCTOPUS ENERGY: 'CUSTOMER HAPPINESS IS OUR ONLY TRUE METRIC'

The value of a cohort of customers doesn't just depend on lifetime value, but also about their ability to attract other customers. Sticky customers, with high rates of referral, can become essential to growth and expansion. Octopus Energy drew on their superior customer service to create a loyal community of users. As a product, this service created true customer love, which in turn translated into word of mouth spread and growth. Developing a product or service that customers really care about, supported through high levels of trust built up with outstanding customer service, ensures customers are far more forgiving about the inevitable bumps in the road.

Customer acquisition only becomes 'too expensive' if it doesn't result in superior customer happiness and therefore retention. Customer happiness is our only true metric.

— Rebecca Dibb-Simkin, Global Director of Product and Marketing at Octopus Energy Group

MINI CASE STUDY
PATCH PLANTS – 'ARE WE TARGETING THE RIGHT AUDIENCE?'

Finding pathways from low to high reach through growth experimentation.

Patch experimented with growth strategies very early on, trying multiple channels of growth until they found one that worked. The company trialled everything - from flyers in the streets to online ads - and this experimentation gave them the data they needed to analyse customer behaviour and target a more bespoke approach.

Through this process, they realised that their initial growth channels reflected a Slow Niche model, with a smaller target audience. On balance, however, they decided to switch models, and went instead for a Slow Mass approach. At first glance, the Slow Niche model appeared optimal because the targeted audience had a higher AOV, but they realised the Slow Mass approach would allow them to achieve a faster growth rate given broader appeal. This was underpinned by greater LTV by creating retention in the long run.

Crucially, Patch also learnt how to identify the customers who don't buy from them so they could stop targeting them, and bring down their CAC.

When you first start, you end up throwing various strategies at the wall and then waiting to see what sticks. However, you might not know if it sticks in the best way. Over time, we were able to get the data and run tests to see which approach was the right fit for our business. That process meant we could start to identify the characteristics of the customers that don't purchase as much from us, and then build a strategy for how we can stop trying to acquire those customers, because they're not as valuable.

— Freddie Blackett — CEO and founder of Patch Plants

Freddie Blackett photograph by Emma Croman

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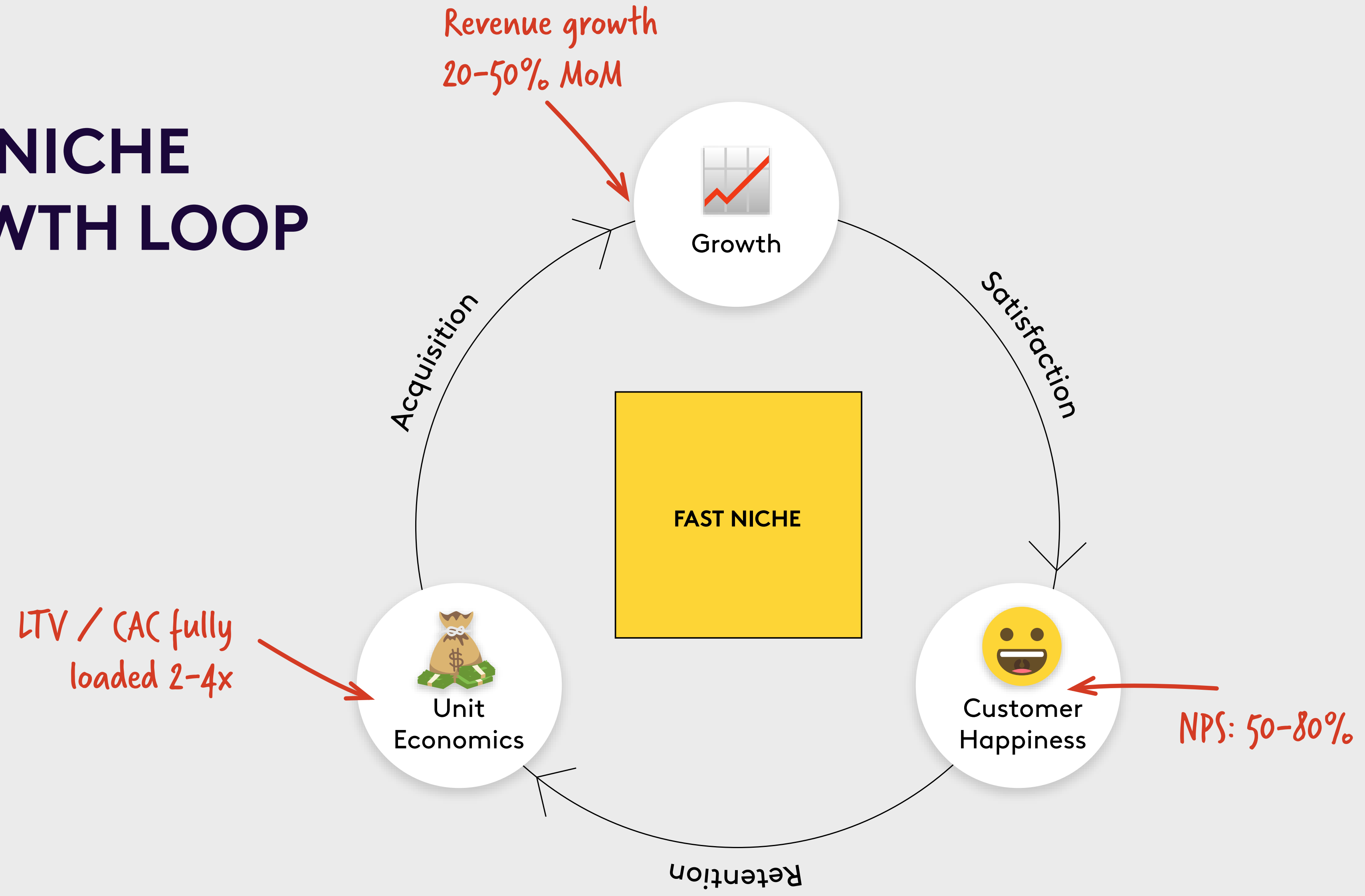
Fast Niche

What good looks like for fast niche business models: Lower reach, specialist or premium consumables or products (e.g. premium food and drink experiences). Iconic businesses in the segment: Freddie's Flowers.

FAST NICHE GROWTH LOOP



Measure what matters: Fast Niche

- **Growth:** For more specialised, high frequency business models, investors expect to see at least 20-50% MoM in the early stages. Organic growth (though difficult to measure) is also a fundamental indicator that the business has been able to create a community of followers early on.
- **Customer happiness:** Referability and retention rates are fundamental to success in this business model segment, as they demonstrate an ability to create both a loyal community of users, and a lifestyle brand.
- **Unit economics:** With this model there is a great opportunity to win on unit economics and optimise marketing spend for targeted segments early on. Investors will expect to see a clear view of LTV / CAC.
- **AOV:** Businesses in this segment tend to have premium offers. Demonstrating that users are willing to pay a premium frequently is key.
- **Payback:** Investors will expect businesses to know their customer well, meaning payback should be quick, ideally within 3-6 months. However, this is likely to be balanced with a look at revenue, to make sure the business is not underinvesting in growth.

The ability to create a community of loyal customers, who will recruit more users and are willing to pay a premium frequently, is fundamental to the Fast Niche segment.

— Rebecca Hunt, Investor, Octopus Ventures

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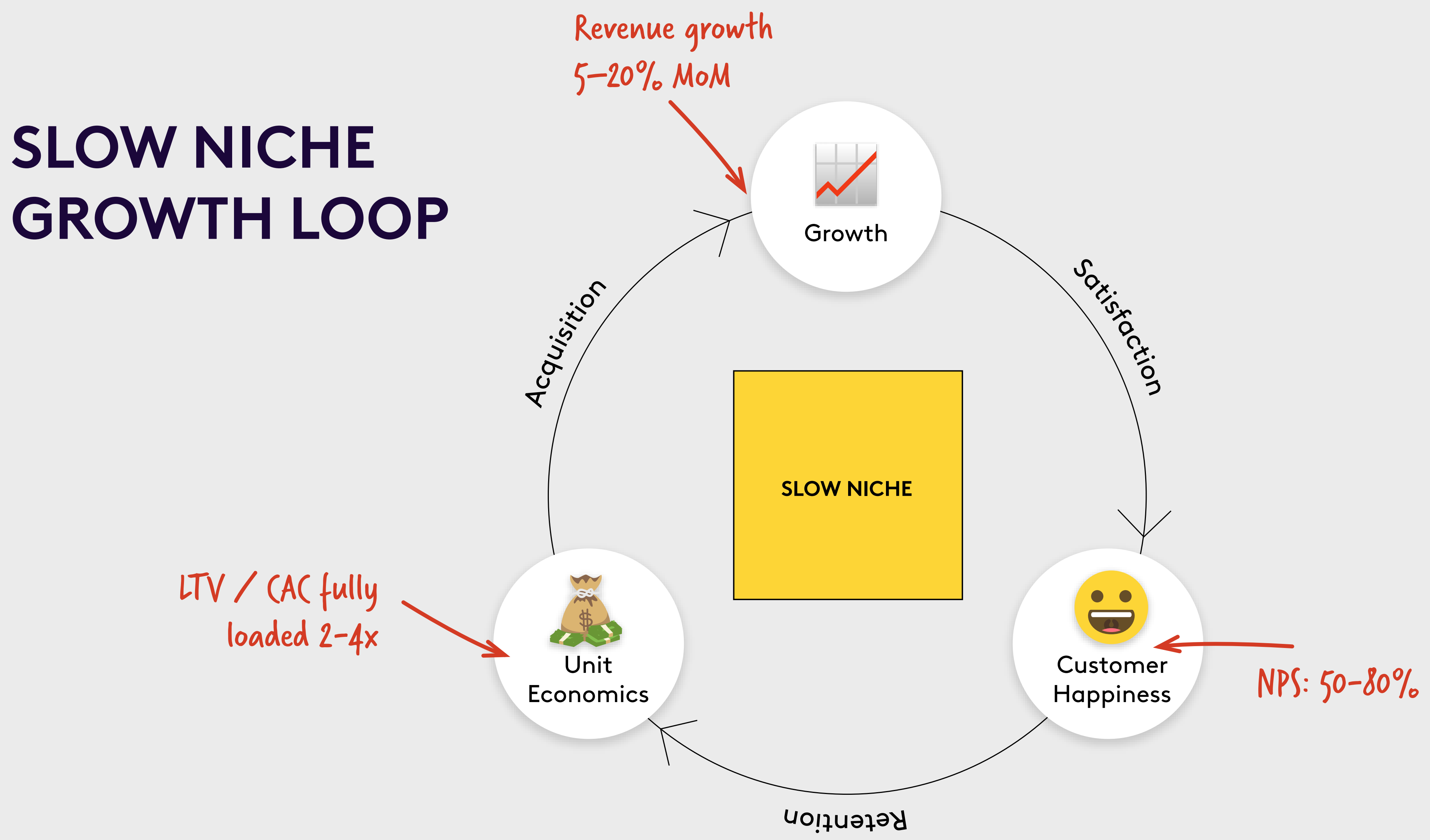
Slow Niche

What good looks like for slow niche businesses models: Lower reach, generally premium and infrequent experiences and products



Measure what matters: Slow Niche

- **Growth:** A big picture look at cohort analysis is important for this business model. Investors will expect at least a 100-200% growth rate YoY for earlier stage businesses. Investors will also consider whether the company is building a community of referrers or not.
- **Customer Happiness:** With a small pond to fish in, and less frequent customer interaction, the true measure of success in this business model segment is 'fandom'. It is essential to create a small pool of diehard fans that will recruit new users – this is how Depop started.
- **Unit economics:** With slower business models, LTV is much harder to calculate as purchases happen less frequently. The frequency of purchase means that customers in this segment need to be profitable from the first purchase, or at least early on in the LTV.
- **AOV:** This model should have the highest AOV. Customers are coming to you for an experience, or something they need that they can't buy anywhere else. Investors will expect this to be a premium offering.
- **Payback:** In marketplaces with a lower repeat model, there is more flexibility in payback. 12 months is expected for this business model, versus the average of 6-12 months.

Success in this business model happens once the product becomes a social currency for 'tribes' of consumers. At Adidas, we deliberately built the Yeezy brand around an authentic community of consumers, based on scarcity and a tight control of our supply chain. The 'Sold Out' message is the strongest possible driver of desirability in this segment. Frequency of purchase is lower in this business model segment, but great businesses will control it based on new releases or 'drops'. Having the discipline to build scarcity is fundamental here, and businesses that go for quick wins to drive sales will only experience short-lived success.

— Ciaran Jourdan, CMO, Responsible

CHAPTER 4

A final word

What should you take from this report?

At the very least, we want to start a conversation. Our hope is that this gives founders the knowledge — and tools — to build and scale their businesses with real intent. A better understanding of your business model offers real insight into the necessary foundations for growth. With these tools you can focus on solving the right problems at the right time.

Hopefully it should also make conversations with investors easier; with a greater awareness of what 'good' really looks like, founders should feel empowered to tell a compelling story that really highlights their strengths.

Identifying the metrics that are working for you, and, more importantly, those that need improvement, creates space to fine-tune and fix them. No founder is expected to have all the answers — but experienced investors can help.

Finally, it's important to emphasise that while metrics are important — they aren't everything. At Octopus Ventures, we always look at the quality of the team first and foremost; in our experience, people are the single greatest determinant of success.

The insights in this report are the result of lots of conversations with other investors and founders, but it's still a subjective judgement. If you think we've missed something, or we got it wrong, please tell us why. We'd love to have a chat. And if you're building in this space and have something brilliant you want to show us — please reach out and let's start a conversation.

— Matt Chandler, Investor, Octopus Ventures

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