

# THE TRACTION GAP FRAMEWORK

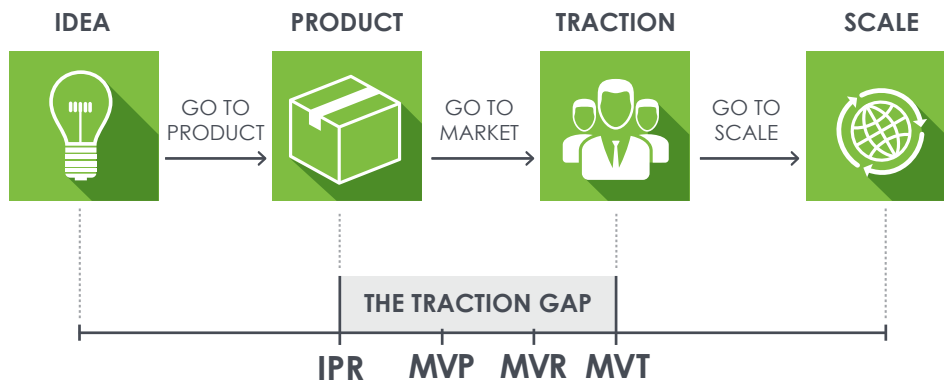
Early stage startups that fail to achieve traction are subject to lower valuations, significant financing risks and sub-optimal outcomes.

In our decades of venture experience, we have seen thousands of successful startups go from an idea to product (the go-to-product phase), from product to traction (the go-to-market phase), and from traction to scale (the go-to-scale phase).

Additionally, we have seen ample capital available for companies in the early, go-to-product phase and the later, go-to-scale phase, yet time and time again, **too many companies falter in the middle, go-to-market phase, exposing themselves to lower valuations, significant financing risks, and suboptimal outcomes.**

We are therefore introducing a framework, the Traction Gap, to better equip entrepreneurs in the critical go-to-market phase. **The Traction Gap spans from a startup's Initial Product Release (IPR) to Minimum Viable Traction (MVT),** which we define as a point in a company's maturity—whether it be a certain level of revenue growth, engagement, downloads, usage or the like—that demonstrates market validation and signals positive growth trajectory.

An enormous amount of value and venture return is created in the Traction Gap. Honed over working with hundreds of pre-traction companies, our team has the expertise and track record to build an industry-wide reputation for successfully navigating startups through the Traction Gap and generating superior outcomes for both entrepreneurs and LPs.



## CHARACTERISTICS OF THE GAP:

- Incomplete product architecture
- Incomplete revenue architecture
- Incomplete team architecture
- Incomplete systems architecture

## ADDRESSING THE GAP REQUIRES A TEAM WITH...

- Deep networks
- Subject matter expertise
- Go-to-market expertise
- Operational experience



*What matters is proving the viability of the company's business model, what investors call 'traction.' Demonstrating traction is the true purpose of revenue in an early growth company.*

**ERIC RIES**, Founder, The Lean Startup,  
Blog - "Startup Lessons Learned"

## TRAVERSING THE TRACTION GAP

**Startups must successfully achieve a series of increasing value inflection points in their path along the Traction Gap. These points include: Initial Product Release (IPR), Minimum Viable Product (MVP), and Minimum Viable Repeatability (MVR).**

- IPR is where the startup first makes its product generally available to the public. At this stage, the team is seeking customer validation metrics to prove it has developed an MVP.
- MVP is a debated term but we subscribe to the following definition: a Minimum Viable Product is the most pared down version of a product that will still be purchased or used by customers.
- We define MVR as the smallest amount of repeatability a startup can execute to demonstrate its business model feasibility and product/market fit.

**MVR is a critical value inflection point for most startups.** At MVR, the startup has demonstrated it has some rhyme and rhythm to “how” and “why” customers are acquired. It now knows a significant amount about its target customers, has semi-effective product positioning, a reasonable sales pitch, a handle on the primary sales objections and rational responses to the same, and a few reference customers.

The startup is now safe to hire a few sales people, invest in marketing and lead generation, and can expect them to be fairly effective. That said, repeatability is not just about sales. The startup should have also demonstrated product release repeatability, implementation success repeatability (real customers using the product and getting real value), and some marketing and lead generation repeatability.

To achieve MVR, the startup must develop core competencies in product architecture, revenue architecture, team architecture and systems architecture. To go on and reach MVT, it must continue to measure, refine and optimize each of these areas.

### PRODUCT ARCHITECTURE

A startup’s product architecture includes the set of technologies, applications and features that comprise its offerings. **A well-thought-out product architecture enables startups to achieve rapid product/market fit through customer validation as well as garner the partners needed to complete the whole product offering.**

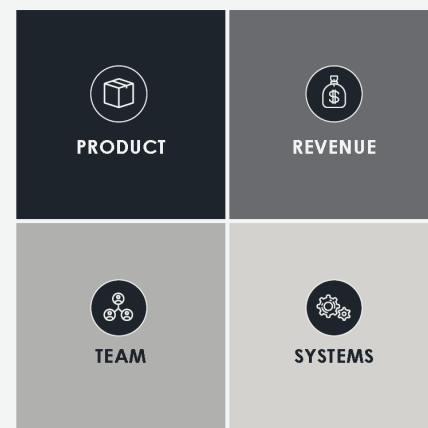
Occasionally, in spite of early product acceptance, a team may discover it needs to pivot product(s) and change positioning or add significant capabilities in order to secure sustainable product/market fit in a viable market category. This can result in startups requiring more time and capital before they are ready to scale, something early stage investors must be prepared to provide if they believe significant value creation is likely. More importantly, teams must also have the patience to postpone expensive go-to-market scaling until such fit has been confirmed.



*All early stage startups are faced with the challenge of traversing the Traction Gap. To make it, they need a well-defined strategy that addresses a combination of product, team, revenue and operational systems.*

**JON MILLER**, Co-Founder, Marketo, and CEO, Engagio

To achieve MVR, the startup must develop core competencies in product architecture, revenue architecture, team architecture and systems architecture.



**We work with our portfolio companies to ensure that true customer validation is achieved to avoid premature expansion and the accompanying dangerous waste of capital.** Of the four elements critical to MVR, the product architecture is where early stage startups tend to have the most well-developed plans and expertise.

## REVENUE ARCHITECTURE

**A startup's revenue architecture is defined by its business model and its ability to secure awareness, engagement, sustained usage, and ultimately convert that into monetization.** When a startup reaches a Minimum Viable Product (MVP), it has validated a set of value propositions, but it will likely still be experimenting with business models, programs, and processes that generate awareness/interest and convert into engagement and/or revenue.

For B2C (or B2B2C) startups, this normally translates into testing techniques that:

1. Optimize Lifetime Value (LTV) to Customer Acquisition Cost (CAC) ratios (including organic as well as paid acquisition);
2. Create efficient supply side acquisition in the case of marketplaces;
3. Experiment with margin on transaction fees, subscriptions, etc., building towards positive unit economics and contribution margins;
4. Increase engagement of Monthly Active Users (MAU) and Daily Active Users (DAU); and
5. Build repeatable and scalable geographical or market segment roll-out strategies for multiple consumer marketplaces and services.

For B2B, revenue architecture involves strategies to lower Customer Acquisition Costs (CAC), identify up-sell opportunities, increase usage rates, and optimize Top of the Funnel (TOTF), Middle of the Funnel (MOTF), and Bottom of the Funnel (BOTF) conversion rates.

**Whatever the model, we work with our entrepreneurs to build critical momentum — as deficiency in revenue architecture poses the greatest near-term risk of failure — so their startups can exit the Traction Gap with sustained, significant growth and usage rates that exceed their peer groups.**

Scaling prior to reaching MVR can be disastrous for a startup — and its investors. If scaling occurs too soon, the startup can burn a significant amount of capital with little growth to show for it. This can result in a material down-round, layoffs, significant employee ownership dilution, and even shutdown due to lack of investor interest. This is why we work carefully with our entrepreneurs to understand whether their startup has truly reached MVR. Between MVR and MVT, we help entrepreneurs to determine where and how to optimally scale: geography, verticals, and market segment (e.g. small to medium businesses to enterprise).

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*The Wildcat team encouraged us to move upstream from our initial mid-market entry point, and to move from transactional to more predictable SaaS-like metrics. We grew to nearly \$100M in revenue within 5 years working with the Wildcat team.*

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**ANDREW DRESKIN**, Co-Founder and CEO, Ticketfly

## TEAM ARCHITECTURE

Early stage startups often have small product-oriented teams and have not yet hired a complete management team or other personnel they need to scale the company. Competition for A-level employees is fierce, further compromising a startup's ability to scale. Many times, the wrong people are hired for the wrong role or early team members are unable to scale with the startup. Other times, the founding team may pull together a good core management team, but they lack a comprehensive strategy to address the extended team of the board of directors, customer advisory board, products council, employee advisory group, etc. **Getting the team architecture right is key to reaching MVR on the path to MVT.**

As early stage investors with extensive, proven company-building experience, we have seen this play out in startups countless times. **Armed with our expertise, personal networks and the Wildcat talent acquisition team, we work closely with entrepreneurs to systematically build up their teams and dramatically reduce team completion risk.**

## SYSTEMS ARCHITECTURE

The systems and processes of a startup can either help it accelerate growth or hold it back. These systems and processes must integrate both front and back offices, establish transparent performance metrics, and cultivate the progressive cultures needed to succeed.

When we invest in early stage startups many are using QuickBooks for accounting, Act or the like for CRM, maybe Wix or a simple eCommerce platform for the web, and perhaps ZenDesk for support. By the time they reach MVT, they need to be on far more sophisticated platforms using much more refined business processes.

In addition to operational systems, startups must ensure they have a well-designed development stack. Very real make or break choices are often made with respect to the engineering management infrastructure that can negatively impact margins and prevent the company from scaling later on.

**Having worked with so many high-growth technology startups, we counsel founders and teams to build systems and processes with the right foundation, early, so that operational efficiency can fuel as well as keep pace with growth, while also minimizing the amount of financing required.**

Once a startup has demonstrated mastery over these four architecture areas, acquired a meaningful cohort of customers using its now proven go-to-market strategy and executed several quarters of successive growth, it is prepared to declare MVT.



*The team at Wildcat understands the importance of securing and developing the right talent required to traverse the 'Traction Gap.' Their willingness to provide valuable insight in making tough talent choices is greatly appreciated.*



ROB BERNSHTEYN, CEO, Coupa

Some of the companies we have been involved with when they were just early stage startups include:



## LEVERAGING OUR STARTUP OPERATING EXPERTISE

**At Wildcat, the majority of our investments are in startups that have not yet traversed the Traction Gap.** We seek out and are comfortable working with incomplete teams, lack of product/market fit and immature revenue constructs. We feel this is where we can best leverage our startup operating expertise to generate superior returns.

We enjoy and are successful working with companies at this early stage because we have been investors, company founders and entrepreneurs, operating executives, and consultants with many successful technology startups during their formative years, prior to them traversing the Traction Gap.

We have learned and documented invaluable lessons from our experience with these outstanding entrepreneurs, companies and teams. Our collective experience enables us to quickly identify where early stage startups are located along the Traction Gap and to tailor the set of strategies, tactics, team, and timing to help startups traverse it.

**According to Correlation Ventures, the overall success rate for early stage startups is less than 25% and mean returns are <2.6x. The Wildcat team's success rate with Traction Gap companies is 70%+.**

## HOW WE WORK AND WIN WITH ENTREPRENEURS

**When we invest, our team commits its experience, network, and resources to helping startups traverse the Traction Gap.** This experience has been further augmented via our long-term relationship with Geoffrey Moore and the Chasm Group.

Geoffrey and his colleagues have spent the past twenty-five years addressing a transition similar to the Traction Gap, called "Crossing the Chasm." This happens later in the life of a venture investment, when it scales from being a credible candidate to a viable going concern, typically growing from less than \$10M in revenues to greater than \$50M. This is the "go to scale" phase. To help companies make this transition, the Chasm Group has created playbooks that address different stages in the journey — winning in the early market, crossing the chasm, expanding the bowling alley, entering the tornado, and transitioning onto Main Street. These playbooks have been proven out in thousands of engagements, and we are delighted to have Geoffrey as an integral part of the Wildcat team.

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*Wildcat's team is a group of proven investors and entrepreneurs who have personally and successfully made the Traction Gap journey and have led many startups safely to the other side.*

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**ROB FROHWEIN**, Founder and CEO, Kabbage

Now we are applying this same approach to systematizing our engagement with startups as they traverse the Traction Gap. **We are creating playbooks, workshops, and networking events — led by our team of experienced successful entrepreneurs, startup operators, consultants and notable industry leaders — where our entrepreneurs learn how to successfully meet these challenges.** To be sure, there is no “magic formula” for success, but through our collective experience and these playbooks and workshops, we believe we can help to accelerate our portfolio companies across the Traction Gap, quickly and efficiently.

The Lean LaunchPad, introduced by Steve Blank, and the Lean Startup initiative, led by Eric Ries, have been instrumental in helping early stage startups transition from Ideation to MVP — the “go-to-product phase”. Similarly, The Chasm has helped later stage startups transition from selling to the Visionaries and Innovators to the Early Adopters to the skeptics in the Early Majority and get onto Main Street. **What has been missing is a framework and corresponding body of knowledge to address the issues entrepreneurs face in the initial “go-to-market” phase — the Traction Gap.**

This is just the beginning of building a model that leverages our collective years of startup operational expertise. We intend to develop a compendium of data and metrics that will enable entrepreneurs, LPs, VCs and the media to think less of startups in terms of their financing round series and, instead, focus more on where they are in terms of the Traction Gap: IPR, MVP, MVR and MVT.

This intellectual property is core to our differentiation as a venture firm and a key to the success of our entrepreneurs and portfolio companies.

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*Traversing the Traction Gap is a unique experience for every company, but there are rules of thumb to leverage. Wildcat is packaging this experience in frameworks and consulting sessions to help its entrepreneurs make crisp decisions under conditions of uncertainty.*

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**GEOFFREY MOORE,**  
Author, “Crossing the Chasm”



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