

# THE **TRACTION GAP**<sup>®</sup> FRAMEWORK

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

Over the years, as entrepreneurs and venture investors, Wildcat's founding partners have seen many startups successfully 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).

**Yet time and again, too many companies falter, exposing themselves to lower valuations, significant financing risks, and suboptimal outcomes.**

In their seminal works on startups, authors Steve Blank (*The Startup Owner's Manual*) and Eric Ries (*The Lean Startup*) explain the challenges associated with the go-to-product phase. They coined the term "lean startup", based upon lean manufacturing tenets originally developed by Toyota, to reflect a startup team's need to quickly identify the market opportunity, validate that opportunity and reach "product/market" fit with a Minimum Viable Product (MVP).

"The Lean Launchpad class was developed to help entrepreneurs go from an idea to a product that customers want. The Traction Gap is a much needed framework for the next step in that progression, taking a minimally viable product and growing it to sales repeatability and traction."

**Steve Blank | Author, *The Startup Owner's Manual***

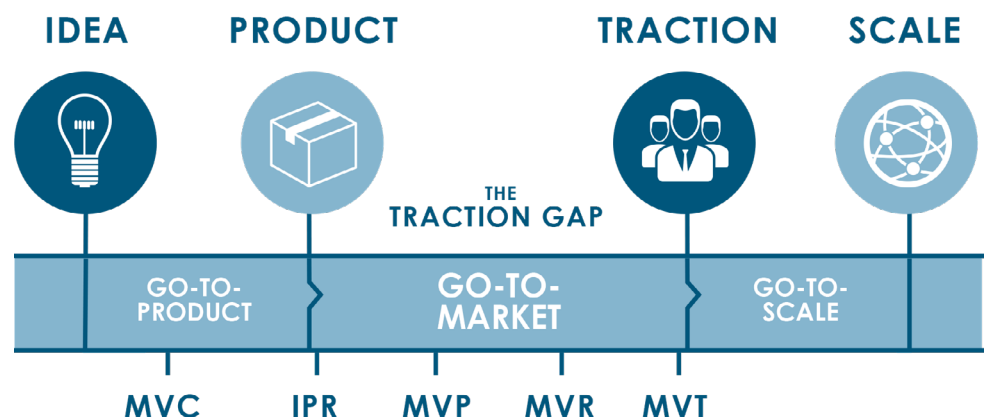
Geoffrey Moore, iconic author, speaker and member of the Wildcat team, has shown companies how to think about markets, "cross the chasm" and begin to successfully scale a product: the go-to-scale phase.

**Surprisingly, very little information has been captured and published that discusses what startups must do to successfully make it through that middle go-to-market phase. This is the demanding and devastating phase that destroys the vast majority—80% or more—of startups.**

Along with the need for a well-engineered, market-validated product, successfully navigating the go-to-market phase requires "market engineering". Market engineering includes defining or redefining a category, developing powerful positioning and competitor de-positioning, and performing in-depth market research to confirm or reject proposed products and features. This work must be accomplished well in advance of entering the go-to-market phase.

We have found that most startup teams have excellent product engineering instincts and skills but many lack significant market engineering expertise. This compromises their ability to create and demonstrate traction in the go-to-market phase, and significantly diminishes their ability to secure a new round of funding to support ongoing operations.

Wildcat has termed the go-to-market phase the Traction Gap®, and we have developed a framework to better equip entrepreneurs during this critical period.



# TRAVERSING THE TRACTION GAP

The Traction Gap is the period between a startup's initial product release and the product's ability to generate traction in the market. What is considered to be traction can be subjective, but it is typically correlated to the velocity of revenue growth, user engagement, downloads, usage or other variables that suggest market acceptance and signal a positive growth trajectory.

## Startups must successfully reach a series of increasing value inflection points along the Traction Gap Framework path.

|            |   |  |
|------------|---|--|
| <b>MVC</b> | <p><b>Minimum Viable Category:</b> Defining a new or redefining an existing category.</p>                           | <p>MVC is a key part of the market engineering process. You must develop and validate the name and definition of the category your startup is attempting to create or redefine — and provide evidence that there is a large addressable market for it. (Competing in an existing, well-defined category dominated by an incumbent can be disastrous and result in outright failure.) This milestone must be reached well before entering the Traction Gap.</p>   |
| <b>IPR</b> | <p><b>Initial Product Release:</b> First publicly developed product iteration.</p>                                  | <p>IPR is when a startup first makes its product available to the public. At this stage, the team is seeking customer validation metrics to demonstrate it is on the path to developing a MVP. This milestone signals entry into the Traction Gap.</p>   |
| <b>MVP</b> | <p><b>Minimum Viable Product:</b> Product has achieved minimal customer validation metrics.</p>                     | <p>MVP is a debated term, but we define it as the most pared down version of a product that will be purchased or used by customers. Before you declare MVP, you should have completed market engineering tasks associated with MVC.</p>  |
| <b>MVR</b> | <p><b>Minimum Viable Repeatability:</b> Solution-grade product, business model, and repeatable sales/marketing.</p> | <p>MVR is the smallest amount of repeatability a startup can execute to demonstrate its business model feasibility and reach what we call "market/product" fit – without a market, there is no need for your product. You must be able to repeatedly, effectively and efficiently reach and acquire customers and users. Repeatability is not just about sales. You must also demonstrate product release repeatability, implementation success repeatability (real customers using the product and getting real value), and some marketing and lead generation repeatability.</p> |
| <b>MVT</b> | <p><b>Minimum Viable Traction:</b> MVR + multiple quarters of growth.</p>   | <p>MVT signals a company's exit from the Traction Gap. To reach MVT, a startup must build upon the lessons it learned reaching MVR. It must now scale successively quarter over quarter for the next 12-18 months.</p>   |

The Traction Gap value inflection points represent critical moments in time for a startup. As startups reach each successive value inflection point, they substantially increase in value because they have demonstrated a certain amount of market acceptance and risk reduction.

But, it's not enough to just reach a new value inflection point; time plays a big factor here. Startups must move from one point to the next within a certain time period based upon their business model. Investors compare startups against other startups that have made a similar journey and gone on to success.

## When making an investment decision, investors look at how much time and capital a startup has taken to reach its current state and how much capital it will require to reach a new value inflection point.

A startup must have enough capital to ensure it does not falter and fall short of reaching the next Traction Gap value inflection point. Otherwise, the startup may face significant challenges raising new capital.

## The Four Core Architectural Pillars

A startup seldom marches in linear fashion across the Traction Gap path. It is typical for a startup to move in fits and starts – forward and backward - as it experiments, learns, iterates, and executes.

Ever present, no matter where a startup may be currently positioned along the Traction Gap, are four core architectures — Product, Revenue, Team and Systems.

“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* & CEO, *Engagio*



Product



Revenue



Team



Systems

These are the foundational building blocks of all companies irrespective of their size or maturity level. Consequently, every startup must develop competencies in each of these four core architectures, and continuously measure, refine and optimize them.



### PRODUCT ARCHITECTURE

A startup's product architecture includes the set of technologies, applications and features that comprise its offerings.

**A well-developed product architecture helps a startup achieve rapid market/product fit through customer and market validation, and garners the partners needed to complete the whole product offering.**

Sometimes, a team may discover it needs to pivot its product, change positioning or add significant capabilities in order to secure sustainable market fit. When this happens, early stage investors should be prepared to provide more time and capital if they believe significant value creation is still likely. More importantly, teams must have the patience to postpone expensive go-to-market scaling until such fit has been confirmed.



## REVENUE ARCHITECTURE

**A startup's revenue architecture is defined by its business model, category, positioning, and its ability to monetize awareness, engagement, and sustained usage.**

“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”**

As a startup validates a set of value propositions, it will likely be experimenting with business models and processes that convert awareness and interest into revenue.

### For B2B startups, 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.

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

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

Deficiency in revenue architecture poses the greatest near-term risk of startup failure.

**Scaling revenue prematurely can be disastrous for a startup and its investors. A startup can consume a significant amount of capital with little growth to show for it. This can result in down-round valuations, significant employee ownership dilution, layoffs, and even shutdown due to lack of investor interest.**



## TEAM ARCHITECTURE

Early stage startups often have small product-oriented teams and have not yet hired a complete management team or other personnel needed to scale. Competition for top talent is fierce, further compromising a startup's ability to scale.

**Many times, startups hire the wrong people for the wrong role, or early team members are unable to evolve with the company.**

Other times, the founding team may pull together a good core management team, but lack a comprehensive strategy to address the extended team: the board of directors, customer advisory board, products council, employee advisory group, and so on.

“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**



## SYSTEMS ARCHITECTURE

The systems and processes of a startup can either help it accelerate growth or hold it back. Systems must integrate front and back offices, establish transparent performance metrics, and support the governance processes required to succeed.

Typically, early stage startups use rudimentary applications for accounting, a simplistic CRM implementation for sales and support, and a simple e-commerce platform for the web. 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.

**Once a startup has demonstrated mastery over these four core architectures, and proven its go-to-market strategy with several quarters of successive growth, it will have traversed the Traction Gap.**

## HOW WE WORK WITH ENTREPRENEURS

Wildcat Venture Partners seeks the wildcatters of the 21<sup>st</sup> century (tech entrepreneurs) who prospect, refine and monetize digital oil (data) to become the next market disruptors and category leaders.

We invest in startups leveraging key technologies such as Machine Learning/ AI, IoT and Cloud & Mobility in the following markets: B2B2C Platforms, Digital Health, EdTech, Enterprise SaaS, and FinTech.

We focus on helping startups that are currently in the Traction Gap and welcome the challenge of working with incomplete teams, lack of product/market fit and immature revenue models. We have been investors, entrepreneurs, operating executives, and consultants with many successful tech companies during their formative years, and have deep domain expertise helping startups become market leaders.



“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.”

**Rob Frohwein, Founder & CEO, Kabbage**

**Industry statistics show that 80%+ of startups fail. Using Traction Gap principles, 2/3 of the early stage startups the Wildcat founding team have backed have gone on to succeed.**

## Investment Process & Portfolio Onboarding

Wildcat Venture Partners uses the Traction Gap Framework and its principles to evaluate investment opportunities. During the investment due diligence process, we utilize the Traction Gap Framework to help us better understand how the startup thinks about its market, product, team, company, and category.

**We are committed to helping our entrepreneurs succeed.**

Once we make an investment, the startup completes our Traction Gap Diagnostic and our team commits its experience, network, and resources to helping it traverse the Traction Gap and prepare to scale.

“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 its diagnostic process to help its entrepreneurs make crisp decisions under conditions of uncertainty.”

**Geoffrey Moore | Author, *Crossing the Chasm***

**You can learn more about our investment process and Traction Gap Diagnostic Process [here](#).**

## Architectural Pillars



### PRODUCT

Wildcat works with our portfolio companies to ensure that true customer and market validation is achieved to avoid premature expansion and the accompanying dangerous waste of capital.



### REVENUE

Wildcat works with our entrepreneurs so they can build critical momentum to propel them through the Traction Gap with sustained, significant growth, and usage rates. Once a startup has reached MVR, we help entrepreneurs determine where and how to optimally scale: geography, verticals, and market segment (e.g., small, medium and enterprise businesses).



### TEAM

One of the biggest causes of startup failure is related to team. Armed with our expertise, personal networks, and a talent acquisition team, Wildcat works closely with our entrepreneurs to systematically build up their teams and dramatically reduce team completion risk.



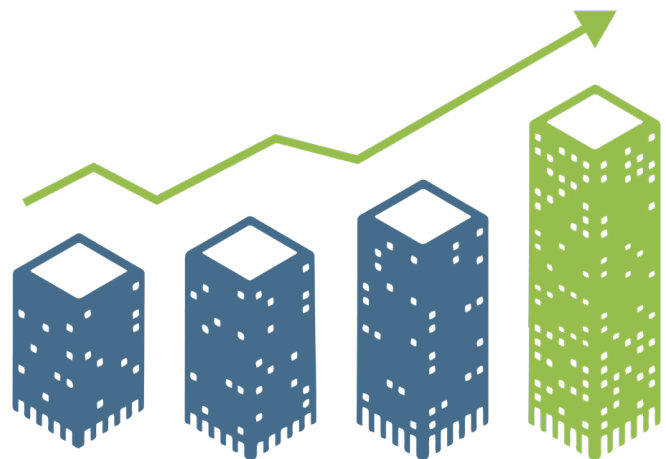
### SYSTEM

Wildcat counsels teams early on how to build systems and processes with the right foundation, allowing operational efficiency to fuel and keep pace with growth, while minimizing the amount of financing required.

## Beyond The Traction Gap

The concepts contained in the Traction Gap Framework, its principles, and our process has helped nearly 70% of our investments to successfully reach Minimum Viable Traction – MVT. From there, you will be faced with a different set of go-to-scale issues – something that Geoffrey Moore and our team are well equipped to help you with as well.

As a member of the Wildcat portfolio, our companies have unique access to Geoff and our team to help them solve positioning, scaling, and other complex execution challenges associated with the go-to-scale phase.





# THE TRACTION GAP INSTITUTE



The Traction Gap Institute (TGI) was founded by Wildcat Venture Partners to help all entrepreneurs traverse the Traction Gap.

**The TGI's mission is to track, capture and publish the stories, tactics and metrics startups need to successfully traverse the Traction Gap.**

The TGI has interviewed dozens of CEOs and founders who have successfully made it through this difficult period, and captured their go-to-market tips, tricks and techniques.

There is no magic formula for success, but through the collective experience of Wildcat and other TGI members and partners, the TGI helps startups traverse the Traction Gap, quickly and efficiently.

We welcome everyone to join the TGI in its mission. For more information, visit [www.wildcat.vc/traction-gap](http://www.wildcat.vc/traction-gap) and [sign up](#) to get the latest news and Traction Gap insights from Wildcat and the TGI.

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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