



Stanford | Precourt Institute
for Energy



Business Models

**Stanford Climate Ventures (SCV)
Energy 203**

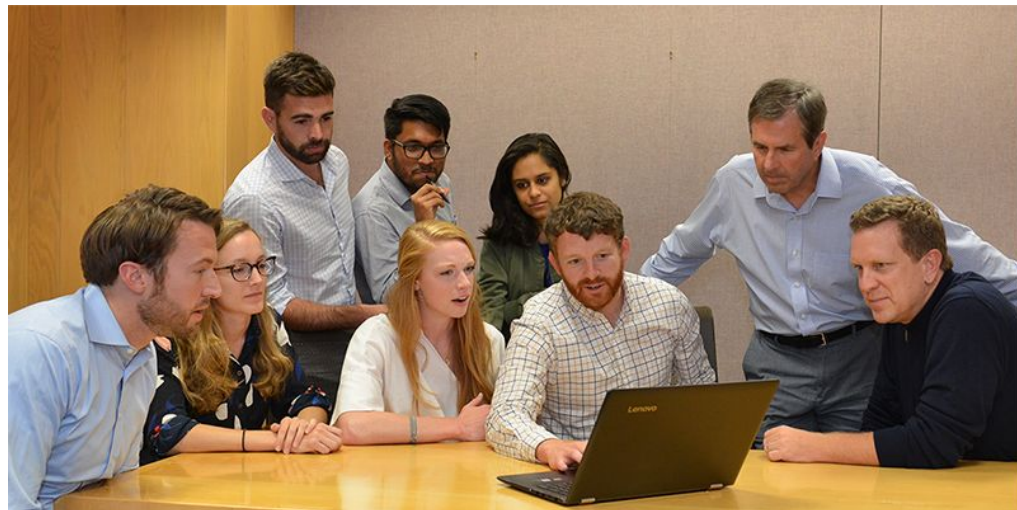
Spring 2022 (Week 5)



Remember the secret to entrepreneurial happiness: Find your “10x value” and fundamentally have you and your team be the best person in the world for that



*Next generation
geothermal developer*






1. What Is A Business Model?
2. Know Your Customer
3. Start-Up Advantage
4. Parameterizing Your Business Model
5. Building Your P&L
6. Secret to Entrepreneurial Happiness :)

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WHAT IS A BUSINESS MODEL?



	General Example	SCV Example	Ideal For	Optimize
Sell a thing			Physical products	Unit economics
Rent a thing			Infrequently used products	Consumption
Take a cut			Platforms and marketplaces	GMV
Charge a subscription			Products/services that people need regularly	Engagement
Charge based on usage			Infrastructure	Consumption
Sell a service			Hands-on help	Skillset
Advertising			Content	Traffic
Percentage of assets		Distribute Capital	Managing money	AUM

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Get as specific as possible...



Energy Company



With Renewable Focus



And Aging Assets



Teresa Oquendo
Wind Project Planner



	Fervo Original	Fervo Now
Customer Persona	People who use electricity	<p>Renewable procurement managers at:</p> <ol style="list-style-type: none">1. Corporates with 24/7 CFE initiatives2. IOUs or CCAs in territories covered by 100% clean electricity mandates

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- A big company can execute a single business model more efficiently & effectively than a small company.
- However, a small company can find new data sets & iterate business models faster than a big company.
- The inefficient small company must have a **10x advantage** on the big company to get initial entry to create new markets and take share in existing markets.
- *Startups must be creative on iterating to find their enabling 10x value!*



	Fervo Original	Fervo Now
10x	Better drilling	Carbon free electricity with 24/7 attributes and full resource adequacy and capacity value

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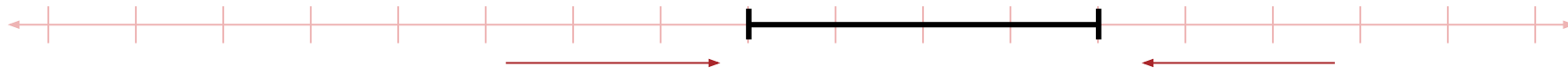
GM% = Profit % after direct costs (“COGS”)

Sales Cycle = Time from first contact to transaction

LTV = \$\$ you'll make from that customer

CAC = how much \$\$ it cost you to get that customer

- The time you spend on getting people onto your sales pipeline
- The time you spend on outreach
- The time you spend networking at events
- The time you spend converting a customer from warm to paying
- The time you spend on support or install calls to help a customer roll out the product
- Integration work to include your product into their system or process flow
- Customer-specific supplier calls or deals.



$$6 < (\text{LTV} / \text{CAC}) < 10$$

If it's greater than 10, you're underinvesting in sales.

Also: LTV / CAC is checkers... GMPP & rCAC are chess... can you get paid upfront?

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Seemingly Every Startup's Revenue Ramp:



Year 1: \$0MM

Year 2: \$3MM

Year 3: \$10MM

Year 4: \$25MM

Year 5: \$50MM

} **How?**

-or-

Year 1: \$0MM

Year 2: \$0MM

Year 3: \$3MM

Year 4: \$15MM

Year 5: \$50MM

} **How?**

- How much equity on what milestones required pre-ramp?
- What year does >\$1-2MM/yr ramp begin?
- What is initial & ramped gross margin?
- What is expense gap / equity burn before cash flow positive?
- What is “courage index” on pre-ramp equity?



	Fervo Now
<u>Seed</u> (Establish Biz Model Thesis & Prelim Prod Mkt Fit)	
<u>Series A</u> (Parameterize Your Biz Model)	
<u>Series B</u> (Scale)	