

Applying Discovery Driven Planning: The Quick Test

Lifecycle Stage:



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Quick-Test our Business Model: Part 1

Do a sanity-check to determine if we can reasonable meet our revenue goal.

Steps:

1. Pick our Minimum Success Criteria (MSC): Targeted annual recurring revenue 3 years from now (i.e., next 12 months revenue projected from month 12 of year 3) (ARR).
2. Identify our Customer Archetype: Annual revenue per account (ARPA).
3. Identify our Beachhead Market: The size of the initial market for our product.
4. **Determine and evaluate the viability of obtaining the number of customer needed to achieve our MSC.**

Make Factor-of-10 Estimations

Step 1: MSC in ARR	Step 2: ARPA	Step 3: Beachhead Market
<ul style="list-style-type: none">• \$100,000• \$1,000,000• \$10,000,000 (Backable by traditional VC)• \$100,000,000	<ul style="list-style-type: none">• \$10• \$100• \$1,000• \$10,000• \$100,000• \$1,000,000	<ul style="list-style-type: none">• Determine the size of our product market.

Step 4 (example):

If we are targeting \$10M ARR for our MSC and believe we can earn \$10K ARPA, can we possibly secure 1,000 customers, as of month 12 of year 3, given the total size of the product market? (10,000,000 divided by 10,000 is 1,000.) What are the business model implications? What might we need to rethink?

Quick-Test our Business Model: Part 2

Go deeper, gaining visibility into what we would need to do to achieve our MSC.

Steps—Estimate:

1. MSC in ARR
2. ARPA


3. **Average Customer Lifetime in Years**
4. **Qualified Lead Percentage**
5. **Conversion Percentage**
6. **Growth Rate**

Additional estimates
we need to make.

7. **Determine and evaluate the feasibility of obtaining the number of customers indicated each month / year with particular focus on year 1.**

Steps 1 - 6:

Feel free to edit the model to reflect your business.

[Make a copy of the provided model](#) , which converts our MSC into monthly and annual milestones.

Step 7 (example):

Can we possibly achieve the monthly and annual milestones implied by our target of \$10M ARR and \$10K ARPA? What will that take?

For instance, with reference to the table on the next page, if we launch our MVP in July 2023 and secure 1 customer in that month (is that realistic?), can we achieve the following results, shown in in the table? What will that take?

What are the business model implications? What might we need to rethink?

Table

Minimum Success Criteria, or 3-Year Goal, in terms of Annual Recurring Revenue:
Customer Archetype in terms of Annual Revenue per Account:

\$10,000,000 - The MSC is annualized revenue in month 12 of year 3.
\$10,000 - Assumed to be recurring revenue in this model. See Additional Note below.

Sample Input

Incorporate Retention? - Use the dropdown to answer Yes / No.
Average Customer Lifetime in Years: 5 - Review Cancellation data the model to confirm result is reasonable for your business.
Qualified Lead Percentage: 10% - For example, X% of emails sent to prospects result in a meeting (i.e., a qualified lead).
Conversion Percentage: 10% - For example, Y% of meetings result in sale (or "convert").
Cancellation Rate 1.67% - This is calculated monthly from Average Customer Lifetime above if "Incorporate Retention" is set to "Yes". This is a formula not an input.
Growth Rate from Year to Year 10 - "1 to 10 'times'" - From the end of year 1 to end of year 2 and end of year 2 to year 3.

Sample Output

MONTH	LEADS - 10.0%	CONVERSIONS- 10.0%	DIRECT	REFERRALS (HARDCODED 0%)	CANCELLATIONS - 1.67%	ACTIVE CUSTOMERS	MRR	ARR
Jul 2023	100	10	1	0	0	1	\$833	\$10,000
Aug 2023	0	0	0	0	0	1	\$833	\$10,000
Sep 2023	100	10	1	0	0	2	\$1,667	\$20,000
Oct 2023	0	0	0	0	0	2	\$1,667	\$20,000
Nov 2023	0	0	0	0	0	2	\$1,667	\$20,000
Dec 2023	100	10	1	0	0	3	\$2,500	\$30,000
Jan 2024	100	10	1	0	0	4	\$3,333	\$40,000
Feb 2024	0	0	0	0	0	4	\$3,333	\$40,000
Mar 2024	100	10	1	0	0	5	\$4,167	\$50,000
Apr 2024	200	20	2	0	0	7	\$5,833	\$70,000
May 2024	100	10	1	0	0	8	\$6,667	\$80,000
Jun 2024	100	10	2	0	0	10	\$8,333	\$100,000
Jul 2024	200	20	2	0	0	12	\$10,000	\$120,000