

TRACTION. STARTUPS NEED IT. LEARN HOW TO GET IT.

TRAVERSING THE
TRACTION
GAPTM

A 3D graphic of the title 'TRAVERSING THE TRACTION GAP'. The words 'TRAVERSING THE' are in a smaller, white, sans-serif font. 'TRACTION' is in a large, white, sans-serif font, with a grey rectangular block positioned under the 'N' that creates a gap. 'GAP' is also in a large, white, sans-serif font, with a banana peel on the 'G' and a grey rectangular block positioned under the 'A' that creates a gap. The letters have a blue-to-white gradient and cast shadows on the blue background.

BRUCE CLEVELAND

FOREWORD BY **GEOFFREY MOORE**, BESTSELLING AUTHOR OF *CROSSING THE CHASM*
& VENTURE PARTNER AT WILDCAT VENTURE PARTNERS

W | L D C A T
VENTURE PARTNERS

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INTRODUCTION

This is an unusual business book.

Unusual because unlike many business books, we have set out to provide you with a set of prescriptive techniques and tactics you can leverage with your own startup—or with your portfolio companies if you are a venture investor. We are venture capitalists and entrepreneurs, not academics; our orientation is toward real-life business success, not interesting theories. We will always choose messy successes over elegant failures.

This book contains valuable lessons that my Wildcat partners and I have learned in our careers, combined with tried, tested, and proven techniques used by teams to successfully traverse one of the most challenging phases in a startup's life cycle: we call it the “Traction Gap.” As you will see, this journey is almost never smooth. That's why this is a guide, not a bible. Every entrepreneur's experience will be different.

Why should you value the advice in this book? Well, I, along with the members of the Wildcat Venture Partners team who have contributed to its contents, have been involved with successful Silicon Valley companies and the technology industry in some manner for at least twenty years.

TRAVERSING THE TRACTION GAP

I have held operating roles in several Silicon Valley technology companies that were small startups at the time I joined them. At Oracle, I began as a mid-level manager when it was a private company of 100+ employees located on Sand Hill Road in Menlo Park. At 27, I was given the opportunity to build a division, and in less than four years we grew from a “startup” inside Oracle to a major contributor to Oracle’s top line. After Oracle, I joined Apple and ran its Unix and object technology divisions. In 1996, I joined Siebel Systems as a member of its senior executive team just after it completed a \$2M year; five years later, we generated \$1.7B in revenue. All three companies are among the most transformational technology companies in Silicon Valley history.

After we sold Siebel to Oracle in 2006, I elected to try my hand at investing in startups as a member of a venture firm. One of my first investments was in Marketo, when it was essentially just an idea with three talented people. This small team was led by Phil Fernandez, who went on to transform the marketing function as we know it. With C3, I was invited by Tom Siebel to participate in helping the company form its original business plan and then subsequently invest in it; and when Doximity’s founder, Jeff Tangney, sat in the offices of my former venture firm as an Executive in Residence, I had the privilege of watching him work his way through the process of selecting one among three ideas he was contemplating and go on to create a market-leading application for physicians and the healthcare industry.

My Wildcat partners have each had similar experiences, helping to either build or advise startups to go on to become successful market-leading companies.

As such, we have had a front-row seat where we have learned what is required to take an idea from startup to category leader. These invaluable experiences, working with incredible people, serve as the foundation for the principles developed and documented as part of the Traction Gap Framework.

What compelled me—and my Wildcat partners to encourage me—to write this book? It was a troubling statistic. *More than 80 percent of all startups fail,*

INTRODUCTION

according to Dow Jones VentureSource, Correlation Ventures, CB Insights, and other sources. And the percentage may be even greater than that.

I am talking about thousands of failed companies every year. Many entrepreneurs believed they had valuable, important new products . . . and yet they failed, in spite of their belief and their best all-out efforts.

These companies either failed outright or failed to return at least the capital invested. This is a tremendous waste: lost capital, lost jobs, and lost dreams. Some of the smartest people in our economy invest significant amounts of time, effort, and capital that ultimately produce no tangible result. And here's the worst of it.

Most startups can engineer a product; but, sadly, the vast majority stumble when it comes to engineering a market for that product. Just as important as the product itself is accurately assessing and validating market need for that product, then defining or redefining that market, so that their beautifully engineered product has a chance to succeed. To do any less is a colossal wasted effort.

As early-stage investors, we wanted to expose the reasons behind that 80 percent failure rate, especially when venture firms widely proclaim their ability to “add value” as a core competency.

What we have discovered—what I will discuss in depth in the pages that follow—is that every startup must pass through three distinct phases:

1. Go-to-Product,
2. Go-to-Market, and
3. Go-to-Scale.

For negotiating the go-to-product phase, founders have a tremendous amount of information and support for their startup. Incubators, accelerators, angel investors—all are ready and eager to help. For example, Steve Blank's excellent book, *The Startup Owner's Manual*, is a phenomenal reference for any startup team seeking to navigate the go-to-product phase.

That said, I have elected to devote a significant portion of this book—the first four chapters—to exploring some critical issues in the go-to-product period. The issues I discuss have not been dealt with as readily, yet are mission-

critical; and if you do not address these issues satisfactorily, they will at a minimum compromise your success or, worse, lead to an early shutdown.

I will introduce you to terms, concepts, and strategies that will enable you to navigate and exit the go-to-product phase, prepared to take on and successfully traverse the Traction Gap, the meat of this book, what I later term “Slide 29.” You’ll read a lot about Slide 29 in Chapter 1 and throughout this book.

For those relatively few startups that actually make it to the third—go-to-scale—phase, a significant amount of information and support exists for them as well. Consultants and books abound with information that can help founders “cross that chasm” (to paraphrase Geoffrey Moore’s title of his best-selling book) and begin to scale. We are privileged to have Geoff, the master of marketing challenges, as one of our partners here at Wildcat Venture Partners, and I know he agrees with what I am about to tell you:

While there is a substantial amount of information and support for the first and third phases, there is very little data or support for teams making their way through the second—go-to-market—phase.

Very few business metrics exist at this point in a startup’s life cycle. So spreadsheet analysis offers little help to the management team as it attempts to develop a category, define it, and create sophisticated demand-generation and revenue-conversion programs.

This lack of internal and external support could not come at a worse time. Startups in the go-to-market stage face tremendous financial risk. They have a limited amount of time to figure things out and get them right. In many ways, they are never more vulnerable.

It is this dangerous and tumultuous period that we have labeled the “Traction Gap” and presented as the main topic of this book. Fail to generate sufficient traction during this phase, and your startup will never get the opportunity to cross the chasm to its next era of growth. More likely instead, it will come to a sad and dismal end. However optimistic your beginnings, you will end up on the scrap heap of the 80+ percent.

INTRODUCTION

I wrote this book, with my Wildcat partners' significant input and support, to help you keep that from happening.

Soon after documenting and formalizing the Traction Gap Framework and determining a set of best practices, the Wildcat team shared the findings with portfolio companies and startups to get their feedback.

The response was overwhelmingly positive. Many entrepreneurs asked us if we would write a book about the Traction Gap—and how to successfully traverse it. I volunteered to take on the challenge. After considerable effort, significant and wonderful contributions from my Wildcat partners and others, and a lot of field testing, here it is.

Our approach is not just to characterize the Traction Gap, but to show how understanding it will profoundly impact your product introductions as well as your product creation, marketing, sales, and support—and your financing.

In fact, if there's one important discovery we've made in our research into the Traction Gap, it is that most entrepreneurs don't really understand that they need to engineer two products: one that they sell to businesses or consumers, and the other a financial product—their company—that they must sell to investors. In Chapter 2, "Applying the Traction Gap Framework," I talk about developing a capitalization strategy. To secure capital, you typically must recruit outside investors. You must be able to persuade those investors to commit to your idea and startup; you aren't selling investors a consumer or business product or service, you are selling them a financial product. Consequently, your approach and content with investors must be different.

One of the common mistakes I have seen inexperienced entrepreneurs make is to simply take the product deck they might use with a potential customer, add a financials and a team slide, and use that to try to raise capital.

The lack of understanding how to market and sell to investors, coupled with how much and when to capitalize a startup, are key contributing factors to the failure of many startups.

I will explain all this in detail in the pages that follow. I know I speak for

TRAVERSING THE TRACTION GAP

my partners when I say that if we can save one promising startup—or get one of our professional venture peers to reconsider their investment evaluation model—we will consider this book a success.

Every venture firm, entrepreneur, angel investor, and limited partner tends to refer to a startup based upon its latest financing round—Series Seed, A, B, C, . . . and so on—and we are forced to use those terms as well because they are the accepted industry vernacular. But financing rounds are actually a terrible proxy for a startup’s maturity. In fact, they provide little insight into the true progress of these formative companies. I hope to convince you that by using Traction Gap Framework’s terminology, labels, and metrics, we will all have far better clarity into a startup’s actual maturity.

The following is a representative sample of startups that the members of the Wildcat team have invested in and the name of the financing round when one of us first invested.

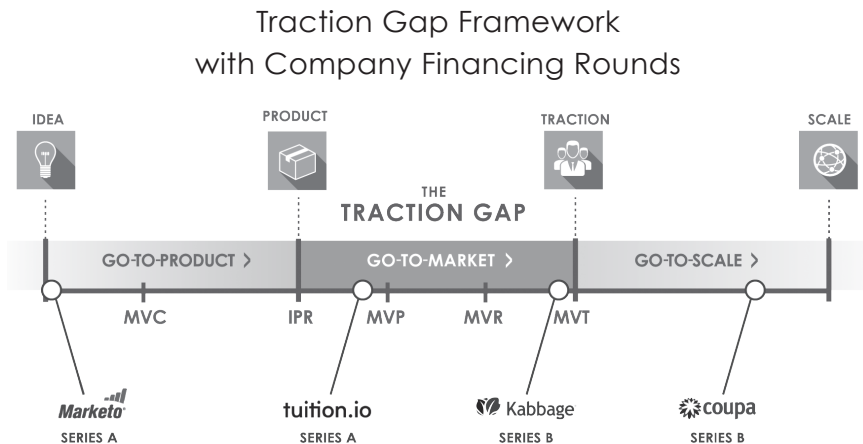


FIGURE 1

Notice that there is little correlation between the name of the round and the maturity of the startup. My Wildcat partner, Bill Ericson, and I invested in a database company that didn’t reach MVP until after its fourth round of financing. Why? Because it takes a lot of capital to produce a commercial database. We are experienced investors in this area—databases and infrastruc-

INTRODUCTION

ture—and the fact that it took this much capital to reach MVP did not come as a surprise to us. In fact, we allocated significant follow-on capital from our initial investment to support the company for this very reason. A mobile consumer app might take only one or two rounds of capital before it's off to the races and scaling.

The simple truth is that financing rounds don't tell anyone much of anything other than that the startup successfully raised capital, which is most assuredly not a barometer of future success.

When venture firms provide an annual accounting and assessment of their early-stage portfolio to their limited partners (LPs—the investors in venture capital firms), we believe that adopting and using Traction Gap value inflection points, metrics, and nomenclature is a far better way to convey the true progress of those startups, rather than referring to their funding rounds. At Wildcat, we use the Traction Gap Framework vernacular with all portfolio company interactions, when we make investment and re-investment decisions, and when we report the progress of our portfolio startups to our LPs.

If we can provoke a widespread revamping of the entrepreneurial startup investment model, we believe we can have a measurable, positive impact on the world economy.

We will admit up front to a narrative bias toward entrepreneurial startups over large, mature companies, and high technology—specifically software—over other industries. The reason for the first is that while the Traction Gap can appear in any company at any time in its history, it is most pronounced in—and is the greatest threat to—small, new startups, where failure to navigate that gap can represent an existential threat.

This book is also primarily focused on B2B software startups using a subscription model: well, that's the business we are in at Wildcat. However, we believe that the issues associated with the Traction Gap are a universal phenomenon—and that while my examples largely come from Silicon Valley

TRAVERSING THE TRACTION GAP

B2B—and some B2C—software companies, many of these concepts can be applied anywhere and everywhere.

One final note here: you will see that I mention and feature many companies throughout this book. Specifically, I spend some time on GreenFig and Obo. These are two companies that I personally founded; I'm not just an investor. I share information about them with you as a kindred-spirit entrepreneur, not with the intention of promoting them over other products and services.

I also discuss other companies and products by name. I did this because these are companies with which I have some familiarity. Neither I nor Wildcat has received any compensation to mention them in this book. And, in almost all cases, they participate in markets with many competitors. If and when you consider using a particular product for a specific purpose that I may highlight in this book, I encourage you to actively engage and review alternative offerings and not just the companies and products I happen to call out.

I hope you enjoy this book and the business anecdotes from successful entrepreneurs very much like you, who were faced with similar issues. More importantly, I hope the book serves as an important reference manual for your own journey across the Traction Gap—or, alternatively, if you are a venture investor, for how you and your firm make investment and reinvestment decisions. When your startup or your portfolio companies survive and successfully reach the other side, please drop us a note and tell us your own uplifting story.

Bruce Cleveland & the Wildcat Venture Partners Team
San Mateo, California

"This is the exact book I would use to teach a class on scaling a company. It focuses on the core business areas entrepreneurs need to professionalize as they go from a pure startup to a solid, growing company—people, product, revenue, and systems. More than that, it gives them milestone metrics based on successful companies to help them gauge their progress and communicate better with investors."

—**WAVERLY DEUTSCH, CLINICAL PROFESSOR AND ACADEMIC DIRECTOR OF
UNIVERSITY-WIDE ENTREPRENEURSHIP CONTENT AT UNIVERSITY OF CHICAGO
BOOTH SCHOOL OF BUSINESS**

"Bruce is one of the leading experts on scaling startups, especially in the enterprise. *Traversing the Traction Gap* packages up years of lessons and contains exactly the type of information and guidance that would have accelerated our growth early on!"

—**AARON LEVIE, CEO AND FOUNDER, BOX**

Successful startups are rare. More than 80 percent of all early-stage startups fail. Most startups can build a product, but, sadly, the vast majority stumble when it comes time to take those products to market. *Traversing the Traction Gap* exposes the reasons behind that scary failure rate and provides a prescriptive how-to guide for startups to succeed.



BRUCE CLEVELAND, Founding Partner at Wildcat Venture Partners, focuses on investments in early-stage AI marketing, EdTech, SaaS, and IoT startups. Bruce enjoys the challenge of creating new companies and navigating new markets. He is committed to sharing his knowledge and experience through the Traction Gap Framework™, which helps entrepreneurs navigate the critical go-to-market period.

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