Overview of the Village Capital VIRAL[SM] Pathway Levels

Introduction

Village Capital's curriculum is anchored in a framework we call "VIRAL," short for "Venture Investment Readiness and Awareness Levels." VIRAL describes nine levels through which a venture-backed company passes as it "levels up" from a startup to a growing, successful company. It is a self-awareness tool that companies can use to become ready to raise investment, regardless of their current stage.

VILLAGE CAPITAL VIRAL PATHWAY℠ Village Capital 2017

Level	Name	Team	Problem and Vision	Value Prop	Product	Market	Business Model	Scale	Exit	Type of funding typically closed at this level
9	Exit in Sight	Team positioned to navigate M&A, IPO.	Global leader in stated vision.	Cited as the top solution in the industry solving this problem.	Product recognized as top in industry.	Clear line-of-sight to industry dominance.	Minimum 2x revenue growth for multiple years.	Strong unit economics for multiple customer segments.	Growth with exit.	Acquirers
8	Scaling Up	Team is recognized as market leaders in the industry	Systems-Level Change validated.	Multiple renewals with low sales effort. Customers in multiple markets love the product.	Strong customer product feedback in multiple markets.	Brand established. Hard-to-beat partnerships for distribution, marketing, and growth.	MOM revenue meets industry standard.	Growth of customer base accelerates month-on-month.	Team has turned down acquisition offer.	Close Institutional VC for Recurring Revenue + Growth
7	Hitting Product-Market Fit	C-suite as good or better than founding CEO and can stay with company through its growth and exit phases.	Impact is successfully validated.	Majority of first sales in target market are inbound.	Product is built for scale and additional offerings in progress.	Sales cycles meet or exceed industry standard.	Business model validated - Validation of strong unit economics.	Evidence of strong unit economics across multiple markets.	Team has strong relationships with multiple acquirers.	
6	Moving Beyond Early Adopters	Team has proven sales, product dev skills, and management ability to support a growing team for scale.	Sales validate impact tied to solution and grow as solution scales.	Sales beyond initial target customers. Customers love it and are referring the product to others.	Complete product with strong user experience feedback.	Supply/distribution partners see their success aligned with the company's success.	Sales begin to map to projections. Evidence of decreasing CAC with growing customer base buying at target price.	Company has cleared regulatory challenges and (if applicable) is implementing a strong IP strategy.	Team has identified specific exit(s) or other exit environment.	Close Institutional VC for 1st Sales, Market Expansion
5	Proving a Profitable Business Model	Team has clear sales/ops understanding and strategy.	Evidence of impact tied to solution-the company has evidence that by growing the business, company solves the problem.	Target customers love the product and want to keep using it.	Fully functional prototype with completion of product for wide commercial distribution in sight.	Team is having conversations with strategic partners to capture their market faster/cheaper than the competition.	Financial model with evidence of valid projections to reach positive unit economics.	Vision and initial evidence of positive unit economics in two markets.	Inbound interest from large strategics.	Close Round with Angel and Early VC
4	Validating an Investable Market	Team has clear understanding of how their target market operates and has strong industry contacts in this market.	The company can articulate system-level change - how this solution would transform the industry.	Evidence of differentiation through initial target customer feedback that the solution solves their problem significantly better than others in the market.	Team has clear understanding of product development costs and how to build the initial product cost-effectively.	Evidence of $1B+ total addressable market.	Team has financial model with cost and revenue projections articulated and a strategy for hitting these projections.	Initial evidence that multiple types of customers find value in the solution or in an extension of the product that the company is well-positioned to develop.	Evidence of growth trajectory that could lead to IPO, acquisition, or self-liquidating exit.	Angel/Seed Funding Starts
3	Solidifying the Value Proposition	Team has technical ability to build fully functional product and has a clear understanding of the value chain and cost structures in their industry.	The company can articulate why they're the best ones to solve this problem.	Evidence that customers will pay the target price. For B2C - 100 customers, for B2B - 5 customers and conversations with multiple stakeholders in each.	Team has built a working prototype and a product roadmap.	Initial evidence through sales that team can capture initial target market.	Team can articulate projected costs along the value chain and target cost points to reach positive unit economics.	Clear strategy to move to multiple markets.	Initial evidence that the solution already solves the problem better than any incumbents.	Friends and Family, BootStrap / Grants for R&D (Hardware)
2	Setting the Vision	Team has senior members with lived experience of the problem and/or deep understanding of their target customer's problem.	The team can solve the problem and can articulate its vision at scale - what does the world look like if they succeed?	The team has potential customers who provide evidence that solution solves key pain point - product is a painkiller, not vitamin.	Team has a basic low-fidelity prototype that solves the problem.	Team understands any regulatory hurdles to entering the market and has a strategy to overcome them.	Company can point to pricing and business models of similar products in the industry as further evidence that their revenue assumptions hold.	Initial evidence that multiple markets experience this problem.	Vision for growth has company solving a large piece of the global problem in 10 years.	
1	Establishing the Founding Team	Strong founding team - at least 2 people with differentiated skillsets.	Team has identified a specific, important, and large problem.	Team has identified their hypothesis of their target customer - the specific type of person whose problem they are solving.	Team has ability to develop low-fidelity prototype and has freedom to operate - not blocked by other patents.	Team can clearly articulate total addressable market, the percentage they will capture, and initial target market.	Team has identified an outline of revenue model.	Team has identified multiple possible markets or customer segments and has aspiration to scale.	Team understands what an exit is and has a vision for how they will ultimately provide a return for their investors.	
		Team	Problem and Vision	Value Prop	Product	Market	Business Model	Scale	Exit	Type of funding closed at this level

Companies use VIRAL to identify their current stage ("level"), articulate the milestones they need to hit at each stage of enterprise growth, and link these to the appropriate funding opportunities that can fuel them to the next level.

Investors can also use this framework to articulate whether and why a company is a good fit for them. In short, the purpose of the tool is to enable companies and investors to have one common language to talk about a company's current stage and what type of investors are best suited for the company at a given point in time.

VIRAL articulates company maturity - A "higher" level doesn't mean better!

A company's VIRAL level is simply an articulation of the current stage of the company. *A company at a higher level in VIRAL is not necessarily a more investable company.*

In the pages that follow we detail what we mean by each level of VIRAL and what it takes to "pass" to the next level. VIRAL is not the only way of articulating the stages or levels by which a company progresses. But it does provide a common language for Village Capital mentors, entrepreneurs and facilitators to engage in dialog around company development.

VIRAL Levels Overview

Level 1: Establishing the Founding Team

At Level 1, the company has a founding team in place, with at least two differentiated skillsets, and has an initial vision of the problem it is solving and how it will solve it.

At this level, the company may be pre-prototype but knows it has freedom to operate in its market. At this level, a company typically has:

- At least two people on the founding team with clearly differentiated skills and responsibilities, one of whom has technical skills relevant to delivering on an initial founding vision;
- An identification of key roles that the company will require over the period for which they are seeking investment (2-3 years) and a growing list of specific potential candidates;
- An outline of a revenue model;
- An initial sales and investor funnel that serves as a hypothesis of who the company's customers and investors may be.

Specifics for software companies

Teams sometimes want to outsource software development, but should only do this at later stages. The core founding team should lead initial product development and be capable, internally, of advancing the product up to at least a low fidelity product that they can use for value proposition testing purposes. Working Prototype level.

Specifics for hardware companies[1]

Hardware businesses require founders who have technical expertise and can lead product development. Because the product supply side is more complex for hardware companies, the team also needs to be thinking early on about scientific and technical advisors and potential partners who can support help with product design, and development and manufacturing.

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[1] By the term "hardware businesses" we are generally talking about engineered product businesses, such as cleantech or agriculture products or medical device and diagnostics devices. However, our comments in this document also apply to most science-based ventures--anything not exclusively software.

Level 2: Setting the Vision

At Level 2, the Company has identified a large, solvable problem and a vision for solving it at scale. At this point a company typically has:

- A concise articulation of the problem and its vision for how the world looks if the company is successful;
- A basic prototype of the solution that solves the problem;
- An understanding of any regulatory hurdles and a strategy to overcome them.

Specifics for software companies

Most software companies are engaged in second-order innovation using existing tools, processes and techniques that are well known. Level 2 can usually be completed relatively quickly with a low-fidelity prototype produced with a minimum of cost based on the identified problem. Note that after value proposition work at Level 3, it may be that the company needs to cycle back a number of times to Level 2 to better clarify the problem and work up a better design of the solution. Software businesses are less likely to require funding at this level.

Specifics for hardware companies

Hardware businesses also need to create a low-fidelity prototype that can demonstrate the concept and be used to test value propositions. This prototype may initially be in the form of CAD drawings or 3D printed mockups--it is meant to demonstrate functionality but not actually be functional. Hardware businesses are sometimes funded by government or philanthropy at this level because they may need years of research work before they can even verify that their solution is possible.

Level 3: Solidifying the Value Proposition

Level 3 is really about value proposition. At this level, the company has compelling evidence that customers will pay for its solution and that it solves the problem better than competitors. What is "compelling evidence?" This varies depending on the business (B2B vs. B2C) but we encourage entrepreneurs to gather at least 50 data points through conversations and direct engagement with customers.

At this point a company typically has:
- A working prototype, product roadmap, and initial evidence it can capture target market.
- Companies often need to come back to Level 3 if they find something in their business model and value proposition isn't working.

Specifics for software companies

A software team is able to quickly iterate its prototype as it learns from customers. It can also do rapid, iterative testing to gather evidence to validate or reject hypotheses about customer behavior, customer value, and differentiation.

Specifics for hardware companies

R&D-heavy hardware companies may need to test multiple value propositions with low-fidelity prototypes across a range of industries in order to determine a target market. Based on the results, more R&D may be necessary to refine the technology and revise the low-fidelity product.
Because hardware is more difficult to develop and iterate upon than software, hardware teams have to find creative ways to quickly create low-fidelity prototypes that can demonstrate product concepts to customers. Tools such as 3D printers have recently greatly improved a hardware company's ability to iterate at this level.

Level 4: Validating an Investable Market

At Level 4, the company has evidence that it is solving a problem for a large-enough market to build an investable business. If the company is raising equity, investors need validation that the market is big enough (investors will usually say $1B+ in the United States) for the company to be ready for serious investment.

At this point a company typically has:
- Experience selling into the market it targets;
- Evidence that it is solving a problem for a large-enough market to be investable;
- Evidence of differentiation from customers - that its solution solves the problem significantly better than others.

Specifics for software companies

Business-to-business software startups selling into complex markets must validate both the revenue opportunity and key partnerships at this stage. A good way to articulate this is through thinking through a value chain.

Specifics for hardware companies

Market analysis is important for enterprise-focused hardware companies which often operate in complex, regulated industries in which they have to buy from and sell to large companies. This level requires identifying and validating strategic partners and understanding the economics of the company's specific value proposition.

Level 5: Proving a Profitable Business Model

At Level 5, a company has strong evidence it can make money - and enough of it - to be a profitable business by solving this problem with its solution. In other words, the company needs to have evidence of a working business model.

At this level a company typically has:
- A financial model with evidence of valid projections to reach positive unit economics;
- A team that understands both how to sell into this market and how to deliver products into the market;
- Evidence that the company's impact is tied to the solution - the more they sell, the more impact they have.

Specifics for software companies

For software companies, most of the variability in a business model is on the customer side rather than the supplier side. Most software delivery cost is standardized. Examples of exceptions are software that requires key partnerships (e.g. mobile telecom), have specific regulatory requirements, or companies that have geographic or security requirements that require specialized hardware backends.

Specifics for hardware companies

For hardware companies, gross margin is the greatest risk in a business model validation that is directly within a company's control. This is a burden that software businesses usually don't have to take on. Beyond manufacturing, the costs associated with inventory, distribution, warranties & returns, and customs (if involved in international trade) must all be taken into account in ways that can be more complex than with software businesses.

Level 6: Moving Beyond Early Adopters

At Level 6, the company has validated through sales (beyond just early adopters) that its product is exceptional and delights customers. In this level, evidence should begin to validate the business model and value proposition. if not, companies may find themselves returning to Level 3 to re-evaluate their value proposition. For companies, it is generally a major leap between Level 5 and 6; and once on Level 6, very difficult to get to Level 7.

At this level, a company typically has:
- Sales beyond early adopters at a price point that supports the business model;
- Customers are referring the product to others and sales are beginning to map to projections;
- A fully functional product;
- A team needs to excel at both product, management, and sales;
- The product is the vision—users must know on contact why it's awesome.

Specifics for software companies

At this level, a software startup will begin testing its pricing and revenue model with its beta product in preparation for launching its first product out of beta. By the end of this level the company will be selling its first finished product to users.

Consumer software businesses that have advertisers as customers may stay at this stage for a long time and may even exit to an acquirer before first sales occur (Instagram is an example).

For enterprise software, partnerships with larger companies willing to take a risk at this stage are essential. If successful, a long-term contract may be a reward.

Specifics for hardware companies

Hardware businesses, especially those offering enterprise hardware, stay much longer at this level than software businesses. The working prototype may be in "pilot stage" for years, and entrepreneurs will use it to learn from the customers and prepare for a manufacturable product that can be produced at scale.

Companies in regulated industries such as medical devices would likely be legally restricted from moving into first sales until they receive regulatory approval and therefore would stay at this level through the regulatory approval process. Many medical device companies are acquired when still at this level.

The transition from working prototype to first sales is a particularly challenging time for a hardware company to secure funding, especially those selling to enterprises. Demonstration of working prototypes with strategic partners who can turn into first customers may be critical to financial investors. Funding from strategic partners is often required for conducting pilots, easing the transition to financial investors.

Level 7: Hitting Product-Market Fit

At Level 7, the company has validated that it can achieve unit economics that meet or exceed industry in its target market. It's easier and easier to sell its product and bring down its Customer Acquisition Cost (CAC).

At this level, a company typically has:
- Evidence of a complete sales cycle, with multiple customers buying a similar product (i.e. not different bespoke products for each customer);
- Multiple customer renewals with little/no effort;
- Majority of sales are inbound.

Note: A common danger is a "false positive" at Level 6, where an initial customer pays for the product, and this seem to constitute a pathway to growth. This is the challenge of Level 7: can first sales be verified as repeatable sales or is the product-market fit not attainable and Level VIRAL 6 has to be repeated with a different customer-product mix?

It is common for companies to flounder at Level 7 because the traction that they thought they were seeing with customers doesn't pan out. The repeat sales they thought they were seeing become a mirage. Or they aren't able to generate traction on their own and their product has to be part of a larger company's suite of offerings in order for it to be viable. There are innumerable of examples of companies that have exited at this level, selling on to an acquirer, with either great or small returns to investors. Think of any large company in your industry, look at their acquisitions, and you'll find that most of those acquisitions occurred when some level of customer traction had been shown but the company hadn't been able to get beyond Level 7 by definitively proving its unit economics as a stand alone company. It needed the sales force and distribution strength and efficiency of a larger company.

Specifics for software companies

Technology risk has been significantly reduced in the previous level and venture capital is most likely to start investing at the transition into this level. At this level, evidence of metrics is beginning to be proven. For SAAS companies this means a 3x ratio of LTV/CAC. Software companies have a big advantage at this level because as they begin to scale, product costs are relatively easy to predict and manage.

Specifics for hardware companies

Hardware businesses are likely to stay longer in this level because they typically have flatter early growth curves. The completion of one customer sales cycle, with repeat orders, is likely to take longer. Unlike software companies, hardware companies have to carefully attend to the difficult challenges of managing a product manufacturing process that will enable them to deliver targeted gross margins at scale.

Level 8: Scaling Up

At Level 8, the company has validated that it is selling to multiple markets and growing its customer base month on month.

At this level, a company typically has:
- Multiple customers with whom the company has completed more than one sales cycle. For B2B companies this likely includes exclusive partnerships and repeated, long-term sales. For B2C companies it includes exponential product adoption;
- Multiple months of positive retention and growth in recurring revenue;
- Competitive advantage around other areas of the company's business model, particularly distribution and marketing;
- New product launches, product extensions.

Specifics for software companies

As technology development and customer discovery processes have become more efficient and standardized, the capital efficiency of software companies has increased and therefore expectations for what they will deliver have also increased. Venture capital, even in software, has moved later stage. Significant venture capital, certainly at the Series B level, may not come until a company has confirmed product-market fit and also begun to demonstrate an effective and capital efficient go-to-market strategy including creative, competitive cost-effective methods of customer attraction and retention and product distribution. If a company has truly proven itself in Level 7, funding for Level 8 is likely to be relatively easy to obtain and the challenge will be around terms.

Specifics for hardware companies

Hardware companies often find themselves in a bind because they need funds to build product but have a challenging time securing investment. Their capital requirements may be ahead of their ability to provide real proof that they can actually deliver an appropriate return on capital. If they have truly passed through level 7 and have good evidence of product-market fit, financing for hardware companies becomes significantly easier.

Level 9: Exit in Sight

At Level 9, the company growing fast with exit in sight, and is well positioned to provide investors with healthy ROI. The company is also the unquestioned market leader.

At this level:
- Company is demonstrating significant, repeatable year-over-year growth;
- The company is finally achieving their Customer Lifetime Value/Customer Acquisition Cost ratios and have administrative and research costs under control;
- Company is fundraising for growth, not for survival, and is looking towards exit opportunities for its investors. It has identified potential acquirers and/or path to secondary sale of shares, entrepreneur buyback of shares, or IPO;
- A company at this stage is no longer a startup but is now focusing on more traditional management challenges and is working on effective replication of its business model through multiple sales cycles and new product launches.