Losing Money on Sales
Put Sales Leverage to Work for You

Companies live or die on whether users invest with their time and customers invest with their wallets. We’ve all seen companies that spend more on every sale than they make. Their refrain, as the old joke goes, is, “We’ll make it up in volume!”

It’s funny to read about but no laughing matter when it’s your own bank account. Rare is the entrepreneur who has profitable sales out of the gate. But the successful entrepreneur turns the model around and makes its scalable. A scalable sales model depends on sales that are profitable, repeatable, and efficient. Profitable, efficient sales come from knowing how much a customer or user is worth combined with a highly leveraged way to reach them. Repeatability comes from users or customers buying the same thing from you over and over again. How do you turn your sales model around and really make the engine hum?

When Customers Cost More Than They’re Worth

Company M targeted small businesses with its content-hosting solution. The company acquired customers primarily through online advertising and search-engine optimization. I’ve changed the details, but the numbers are illustrative of the acquisition cost versus customer value challenge Company M faced.

D. Feinleib, *Why Startups Fail*
© David Feinleib 2012
Each month, the company spent about $21,000 on online advertising through Google AdWords. The company’s cost per click (CPC) ranged from $3.73 to $4.56, with an average CPC of about $4.15. The company was able to convert around 1% of potential customers that clicked its ads, resulting in a cost per acquisition (CPA) of $415 per customer. (Out of 100 people who clicked at $4.15 per click, one converted to become a paying customer. Thus it cost $415 to acquire a customer.)

The founder of Company M was excited. He had found an acquisition channel that appeared to scale. He started spending.

Company M sold its product at multiple price points, but the most popular was its $19.95 per month Bronze offering. At that price, it would take about 21 months for the company to break even on its CPA. The company would have to lay out $415 up front and wait 21 months before it started making a profit on that customer—and that was to cover its marketing costs, not taking into account other costs such as hosting and customer support. What’s more, each customer would have to continue using Company M’s product for more than 21 months—if any churned out, Company M would lose money.

Some customers did churn out. In fact, some 20% of Company M’s customers churned out—many liked the product, but, being small businesses, they simply went out of business.

After more than a year of spending, watching his customer churn rates, and managing down the CPA, the founder of Company M realized the two lines—his CPA and his customer lifetime value (CLV) weren’t going to converge quickly enough. He laid off most of his staff and reduced his marketing spend. Only time will tell whether he can rebuild the business.

**Ultimately, It’s About Acquisition**

If you can’t acquire users or customers profitably and repeatedly, you may be able to survive for a long time on capital from investors, but ultimately you can’t build a sustainable business. Frankly, as heretical as it may sound, you may be able to make a lot of money building an unprofitable business. Many entrepreneurs and investors have made plenty of money building businesses that lost money hand over first and weren’t sustainable.

That’s because when it comes to tech companies, the capital markets tend to reward growth, and sometimes even just the potential for growth, over profitability. Alternatively, a startup that is unprofitable may be profitable when