TECH HIVE
ADVISORY

UNDERSTANDING TRACTION FOR STARTUPS

What Does Traction Mean?

An idea remains an "idea" until transformed into a product or something tangible. These were the words of an Intellectual Property lecturer to his class years ago, and it holds true today. An idea would remain an idea until strategy, implementation, and execution are put into the mix. This mixture typically births a startup. Nonetheless, even when ideas are transformed into great products, to scale the product, the entrepreneur needs "traction". A great product, devoid of traction, will eventually lose its greatness. Nonetheless, a startup may have the greatest idea in the world, and could even have the best team working together to build a great product. However, if you don't have traction, you're not going anywhere.

In my experience in advisory and practice, I know that the understanding of what constitutes "traction" vary; it means different things to different businesses. For instance, in my conversation with one of the founders of Sycamore.ng, he described traction to be a broad and growing adoption of consumers using the company's services. Because Sycamore provides financial solutions to small and medium scale businesses, their idea of traction centers on the number of borrowers, the footfall of lenders, and the amount the company can disburse within a specific period. He added that the specific number of the above metrics might be either impressive or unimpressive, depending on the listener or audience.

In a similar vein, an executive of the International Finance Corporation, while speaking at a conference earlier this year, noted that "traction" in most instances means some evidence of product-market fit ("PMF"). The business can measure traction in terms of paying or non-paying customers; it could also be the number of partnerships or evidence of a product in the market. Indeed, it could be any or all of the above.

From a Venture Capitalist (VC) perspective, Mark Peter Davis, a New York-based investor, noted that for consumer-sensitive products, "investors want to see 'hockey stick' adoption rates, which imply consistent or increasing growth rates on a percentage basis."

Succinctly, we can construe traction as some measurable momentum or progress in your business. When a startup has "traction," it has a clear indicator that its product or service is viable; that it has found some level of product/market fit, it is getting attention from the identified target market, and the business is growing. Traction is the very heart of a startup. When you're building from scratch and trying to convince the world that your idea has merit, the proof of your ability as an entrepreneur to be successful is in the traction you generate for your business.

How does traction help Startups?

The goal of every startup is to scale, solve problems along the way, become profitable, and, in some cases, get acquired for large sums of money. However, achieving this depends on how much money the startup has and how it can attract investors. Capital and investors play a huge role in how a startup build and sustain traction. The pertinent question is: why should an investor take a chance on your, and what sets your startup apart from other options?

Investors, generally speaking, are looking to invest in a startup that will give them a return on their investment. They want to know that the startup will be successful, and the capital invested be returned to them, and then some (3-10x). One thing I have come to understand in fundraising is that storytelling and shiny pitch decks may get you in the room with investors, however traction in its varying forms is what usually convinces investors to take a bet on a startup. Traction helps gauge the potential value of a startup to an investor.

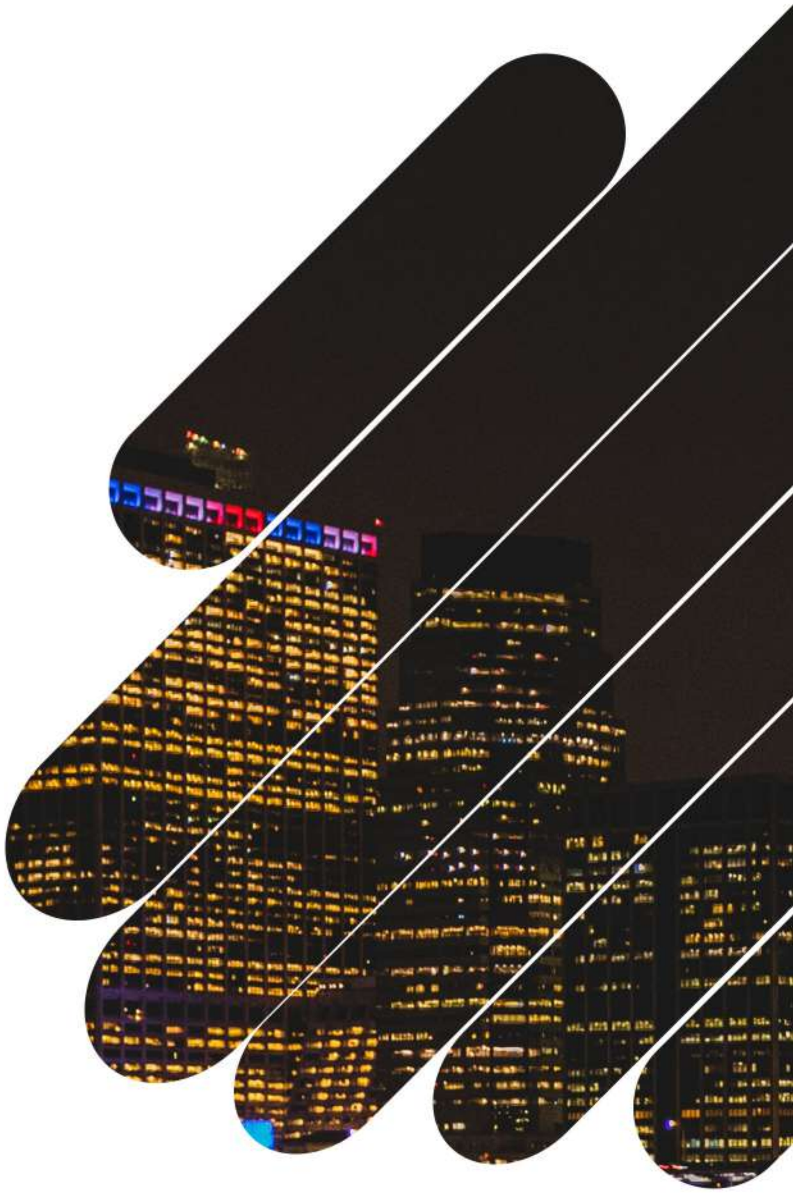
Like I explained earlier, traction is a clear indicator of momentum and progress. It depicts the act of moving forward in some direction. In some cases, traction highlights growth, which is a factor every startup team should keep an eye on at all times. Traction is also proof of your concept and business idea. It is validation that there is a real demand for your product or service and that you may have a genuine business case for your product or service.

Measuring Startup Traction

There are many ways of measuring traction. Depending on what kind of startup you have and which industry you're in, you do not necessarily need to be profitable to show signs of traction.
For example, a startup with a Software as a Service ("Saas") product, or social media-driven startup, maintaining consistent growth in other metrics besides profit such as daily active users, monthly signups, or a decrease in churn rate are all indicators that your startup is gaining traction.

One of the first steps in generating traction is finding what the real drivers of your business growth are - which may take some time to discover - and developing processes to maximize each driver.

This shows that traction is relevant in all areas of a startup. Thus, the success of your business is dependent on how you can generate sustainable momentum in every relevant sphere of your business. The key is to focus on moving forward on as many fronts as possible, but you also have to identify the core strength of your business.



Some indicators may prove useful to founders and teams when considering how to track, show, and measure traction in their business. They include:

a) Real Sales: A common phrase thrown around traction is "the dogs are eating the dog food". This shows that there are customers actively and intentionally paying for your product or service. An investor would like to see how a period of sales compares to your projections for that period. One customer is not traction; beta tests with a thousand customers at no cost do not count as well, nor do projections hinged on family and friends. Startups should also gauge average transaction sizes and sales per customers.

b) Profitability and Revenue: These two are perhaps the most critical indicators of traction for a startup. Profitability is the ultimate goal of any business, and without consistent revenue streams for such business, there can be no profit. Profitability is basically the result and validation that a startup is doing the right things and making progressive improvements.

c) Assembling an exciting founding or management team: The most crucial element of any business should be its people. It may not look it but having a reliable team of individuals running the operations of a startup is a positive indication of traction for an investor. E.g., a startup with an experienced head of technology and head of sales and partnerships with verifiable track records will be a great sell to investors.

d) Show validation of key business model elements: A critical measure of traction is a metric on how many of the key business model elements have been proven with actual data. These would include knowledge of the cost of customer acquisition, cost of leads, sales channel, cost of goods, and pricing strategy.

e) Acceptance by major customers: A startup may report positive traction flow based on the caliber of customers it acquires in the market. Acceptance by major customers will go a long way to convince investors about the value of the business. An example would be an advertising startup that signs up all the Telecommunications Service Providers as clients.

f) Define metrics on customer feedback and user counts: Early examples of traction for any solution, especially free ones, would include website traffic, number of comments, likes, followers, downloads, and active and registered users. Investors are wary of initial surges due to friends, family, and early adopters, so sustainable growth over time is critical. For instance, free and freemium products would require a solid customer base before considering their traction metrics. This is because it is the amount of engagement that counts and not the traffic alone, which can be meaningless or irrelevant if used in isolation.

g) Advisory team and Partners: Investors and potential partners measure your credibility by the quality of your advisors and peer partners. Notable partnerships can signal remarkable growth in other metrics ahead, add credibility, and can show a path to negotiating an acquisition.

h) Measure progress against industry barriers: In every industry, there are known barriers to traction, such as regulatory hurdles, safety standards, etc. These need to be listed as a metric, with resolution times projected and breakthroughs counted. Investors need to see your past accomplishments and the barriers ahead.

i) Validation from experts and industry leaders: Validation and interest statements from experts or industry leaders about your product or service can indicate traction for your startup. This would need to be backed up or followed through with customer acquisition or retention.

Conclusion

Understanding the dynamic nature of traction and the varying perspectives of its meaning to investors and startups alike is crucial to the growth potential of any startup.

Every founder must understand that there is no hard and fast rule to what traction truly means. It is dependent on varying perspectives, contexts and ideas. This is because no business or startup or investor are ever the same and must be examined on a case by case basis.

Although, gaining traction can be challenging for startups, it is imperative that startups must keep evolving and modifying their traction measurement metrics so as to stay ahead in business and the competition. Thus, traction must be regarded an ongoing effort that should be constantly worked towards because momentum is everything in the business of building ideas and startups.

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