# MANAGING THE NUMBERS OF A SEASONAL STARTUP: WHEN TO SPEND AND HOW MUCH

By Greg Coleman

***This post is produced by Nexercise and is Part II in the series, "The Myth of continuous up and to the right: The challenges of a seasonal startup."***

In Part I of this three-part series we provided some insight into seasonal startups — specifically giving some key indicators to help founders determine if they have a seasonal startup on their hands. In Part II, we'll share some tips from founders on managing seasonal startups, with a particular emphasis on managing cashflow and growth during the seasonality.

When our company first launched, we went to market with our Nexercise app, which is now called Challenges by Nexercise. We simultaneously encountered both the expected January user growth in a fitness company as well as the unexpected drop in Q1 advertising spending from big brands – which we now understand to be completely normal.

As we dug deeper into this, we saw that in January of that year, our download, active user, and session counts were all at 12-month highs — while our revenue was at a 4-month low due to low advertising campaign volume. So what was our key takeaway? The next year we needed to make sure we had campaigns from brands that shared our seasonality cycles, specifically, brands targeting fitness. So by working with our advertising partners, we were able to get a few fitness-specific advertising campaigns to go live the following January and we ended up seeing a 2.6x increase in January revenue.

# PAY ATTENTION TO LTV AND CAC

However, there was still more learning to take place. In hindsight, we spent a little more than we should have on advertising our own. Our company is fortunate to be in a position where not only does the Lifetime Value of a user (LTV) exceed our Customer Acquisition Cost (CAC), we also have a standard payback period that is relatively short. But having said that, that following year, we REALLY opened the floodgates in order to make sure we didn't leave any advertising revenue on the table. You're probably thinking this isn't a problem as long as LTV > CAC. However, this dialed-up ad spending inflated the average CAC during that period to the point where the payback period almost tripled. This is non-trivial when you're paying attention to your working capital. So while not fate-changing, it did illuminate another important consideration.

So what do we do now? We pay attention to the following four items when it comes to seasonality:

1. Cash in from advertising or other app sales
2. Cash out from advertising spending
3. Ensure cash on hand (working capital)
4. Build app store rankings, which drive organic growth and overall growth rates

We also decided to offer another product. We now have a product that can take full advantage of the upside of fitness seasonality without exposure to the advertising downside. The paid version of our Sworkit app gives us the ability to directly monetize the seasonal growth of fitness app usage. (We'll let you know how January of 2015 works out.)

# REMEMBER, YOU'RE NOT ALONE

Our story is just one of many in startup seasonality. Simply understanding your primary customer's behavior and motivations provides amazing insight. Consider this example from Weiting Liu of Codementor, a live 1:1 help marketplace for developers that connects developers with experts for on-demand support & training via screen sharing, video, and chat. Liu completely expects that their 2014 month-over-month growth streak of 30% will come to an end in December due to Christmas and the holidays. Liu states, "Codementor is all about productivity — and people generally don't work that much during the holidays.  We've already been seeing down time toward the end of November." As a result, his company is proactively adjusting instead of reacting.

DropShip Commerce CEO Jeremy Hanks, however, is right in the middle of his sweet spot but realizes that he has to grab as much as he can now because things will dramatically change in January. His company, which is an enterprise SaaS platform for retailers to automate shipping, is subject to both the broader seasonality of retail sales AND the timing of IT buying decisions for companies they support. When it comes to managing the seasonality of both the service and the sales cycle, Jeremy states, "This means our KPIs like Orders and Accts who Order explode in Q4 but then our marketing/sales pipeline and then finances/revenues fall off a cliff."

# KEY TAKEAWAYS FROM SPOTHERO

So what should you be considering in your company?

Having collected nearly four years of seasonality data across 10 cities, SpotHero, an on-demand parking company, has figured out what to focus on.

Before joining SpotHero as its Director of Marketing, Elan Mosbacher led marketing for two other VC-backed companies facing seasonality. As you think about spending money on anything from advertising to PR to operations, Elan recommends that you consider the following:

- When to spend depends on your growth plans, unit economics, and business type.
- In terms of growth plans, let's give an example. If you're building a marketplace business, you may need to over-invest initially regardless of seasonality. Instead, marketing spend should be in lock step with the supply side of the business.
- In terms of unit economics, you don't want to accelerate spend until lifetime value, customer acquisition cost, and payback are in line. If LTV:CAC is > 4 and payback is 6-12 months, you'll want to spend regardless of seasonality. If your business is dependent on users over revenue, make sure retention and referral are really high.
- In terms of business type, strategies also vary. For SaaS, focus on moving month-to-month customers to long-term contracts. For ecommerce companies, try to sell subscriptions during busy months so you can make money during slower months. For lead generation businesses, you often want every transaction to be profitable.
- Early on, your budget should be small enough and growth should be fast enough that seasonality won't impact you all that much.
- You'll want to allocate more spend just before and during busy season than just after busy season.
- Spend on demand capture tactics before demand generation tactics, because the former is generally higher ROI.

As you can see, leading a seasonal business is not rocket science. However, it's also not something you can put on autopilot either. It's just as much art as it is science, especially early in the life of your business. However, following some key principles should help you navigate it through the first couple cycles.

In Part III, we'll look at how fundraising works in a seasonal startup and how to position your company for investment when growth is not always up and to the right.

### About the Author

Greg Coleman is the Co-Founder and COO of Nexercise, a TechStars company focused on helping people exercise more consistently through its Sworkit personal training app and Challenges motivational app. In addition to being a TechStars alum, Greg has an MBA from The Wharton School and a BS in Electrical Engineering from the US Air Force Academy.