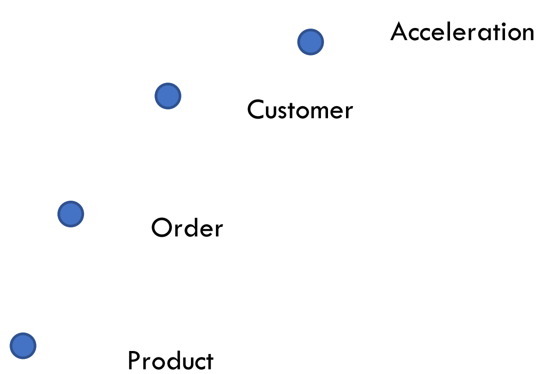
The POCA Curve

Every technology startup begins with an idea, and many times a napkin. From that moment the founder is catching the bug, and becomes obsessed with creating the company that will bring the world a value proposition.
The usual dilemma is: should I raise money to build my product, or go to investors after I have my product? Or prototype… Or a pilot… Or a paid customer…

To answer this question, let's establish a curve called POCA.

What is POCA?
Product, Order, Customer, Acceleration

Product	Have a product to sell
Order	Got a first order or POC (proof of concept)
Customer	Willing to be a reference, logo on your website, recommend to others, and renews
Acceleration	Pedal to the metal to do it again and again



How to optimize the raise?
When an investor runs diligence on your company, one of the steps is to speak with "customers". In the POCA curve this is a term that is reserved to someone who will be willing to take an investor reference call…

If you sold your product (got money even) and the purchaser will not take a reference call – they are not a "customer". They merely gave you an "order". They may even pay for their order, but that is the end of the value exchange.

Too many startups are marketing ahead of their position on the POCA curve. This is very dangerous and ends up being a gamble. Until you have a few ***customers*** who are happy with the solution, and can repeat the value propositions of WHY they bought – you are not ready to accelerate. You need a few ***customers*** as one data point does not make a line. Not everyone who buys from you is a customer…

So when should I raise money?
In general, you want to raise seed money to build a product and conduct at least three pilots/POCs. Some will convert to a deal and some will walk away. You want to raise your Series A when you have ***customers***. Free customers are considered pilots, as they are not committing to using the solution. They cannot ascribe a value that they are willing to exchange with money (yet). This makes the fund raising harder, as the investor has no sense of the value you are creating.

To get better negotiation on your term sheet, get as far as you can on the POCA curve. It is better to get paid $10,000 than give it for free, as the investor can see the value created.

Getting your first order or POC:
Don't be tempted if a customer says "I know your product is design to do X in market Y, but I think I can use it to do Z in market N…" This also ends up being a gamble, and can risk your company. When you pick your first POC clients, if you think there is >50% chance of winning it do not start. Only if there is a solution fit between the customer's need and your product – start the pilot. Bad reputation is worse than no reputation.

Many customers will try to use your product in a different way… they see their needs in everything. Yet, if the solution you sell is not meant for their need, there is a greater chance it will not satisfy their needs.

Then, you burned your most precious resources on the wrong thing: time, money, angst, engineering, POCA curve advancement. Further, if the customer will not be happy, or get hurt in the process – your "reputation will be sealed".

The only thing worse than not getting a paid pilot or a POC, is to fail one. Unless you are certain the pilot will work, and the customer will get value – do not begin. Industries are small, and word of mouth is going to work both ways.

How do I know if I am doing well on my Series A raise?
What is important after you raised your seed, is to build a prototype or MVP (minimal viable product). That is the P in POCA. Then, conduct your POCs and work to convert them to paying customers, even if it's a small amount. Only THEN you want to go to a VC.

Optimizing where you are on the POCA curve is the most valuable thing you can do for your startup, prior to raising Series A. If you are getting a 3x3, 4x4, NxN on your Series A term sheet you have not optimized your POCA position…

This means, that if VCs are interested in your startup, and you keep getting term sheets that say "you are worth $3M pre-money, so we will give you $3M and own 50%..." – this is a 3x3 term-sheet. The same is with a 4x4, 5x5 and NxN. The game is of ownership stake vs how much you raised. If you can get term sheets like 4x6, 5x10 you are well beyond an average startup and made yourself more valuable.

Why is the POCA curve so important?
The growth rate of your sales will be the ultimate yardstick to your success. If you have a product, and you keep selling it by fulfilling "orders" – you are not going to have exponential growth.
To get to exponential growth, no amount of marketing will help… the way to do it is to gain customers. Those who will gladly share the benefit of your value proposition to others. You saying "my product is great" is never going to sound as good as a customer saying it…

In other words, before you can get to A on the POCA curve, the acceleration part – you MUST gain more and more customers (not just orders).

There are two kinds of companies, and they are related to this curve:
Orders 10+10+10 = 30
Customers 10x10x10 = 1,000

In the same time period for selling, Company A keeps selling and taking more Orders. They will get to 10+10+10 of sales. Company B keeps selling and gaining more Customers, who in turn tell others about the product/service, they will get to 10x10x10 of sales.