Financial Modeling for Monad Builders

For any project to be successful, it must have a clear path to profitability. A sustainable business cannot depend on "infinite incentives." A critical component of that profitability is an efficient User Acquisition (UA) strategy - a model where the cost to acquire a customer (CAC) is sustainably lower than their Lifetime Value (LTV).

The Monad Momentum program is built entirely around this principle. We are specifically looking to identify and amplify teams who can design and execute a credible plan to acquire valuable, organic users for the lowest possible cost. This memo provides an overview of the financial framework we use to assess proposals. We believe it is valuable for any startup building a sustainable business, regardless of Momentum applications.

Financial analysis-led approach

You need to have an understanding of the financial elements of your business model. At the highest level, this means understanding revenue drivers and costs (both fixed costs and those that scale with users/activity, i.e. variable costs). Thinking about financials from top to bottom (Profit & Loss):

	Revenue	Gross proceeds collected by an entity
-	Variable Costs	Costs that directly scale with revenue such as cloud costs, production costs for physical goods businesses, etc.
=	**Contribution Profit**	**Profit to the company before fixed costs**
-	Fixed Costs	Personnel, Research & Development
=	**Cash Flow**	**Cash to the company**
-	Token incentives	Incentives given via tokens (both externally provided + company tokens)
=	**Tokeneconomic Profitability**	**True profitability for crypto companies**

Unit economics

A good way to approximate a path to profitability is by using unit economics, or a framework of understanding on a per-customer basis if a business model can work. This is measured by the LTV (lifetime value) / CAC (cost of acquiring a customer) ratio.

How to think about LTV / CAC in crypto

Because incentives are a large part of bootstrapping in crypto, LTV / CAC with incentives is not the same as LTV / CAC without incentives.

- Traditionally, LTV / CAC = (ARPU * Lifetime per user) / Cost of acquiring a user.
- However, with incentives, *true* LTV / CAC = (ARPU * Lifetime per user) / (Cost of acquiring a user + incentive per user).
  - Incentives here include all incentives - for example MON tokens, as well as your project XP points.

DEX example

When starting a business, it is best to have a business model which breaks down the revenue side of the business into several observables:

- volume_monthly: Average monthly transaction volume per user
- fee_topline: Average fee % (topline)
- fee_bottomline: Average fee % (bottomline, i.e., after paying costs that directly scale with revenue such as maker rebates, referral fees, etc.)
  - *Note*: financial analysis from here onward should focus on revenue after costs that scale directly with revenue. For example, if we are an exchange, and a customer pays 4 bps fees to us, but 6 bps to the trading terminal that they use to interface with us, our focus should only be on the 4 bps; the 6 bps was never really revenue.
- arpu_monthly: Average monthly revenue per user (i.e., volume_monthly * fee_bottomline)
- CRR: customer retention rate (monthly)
- LTV: Lifetime value (LTV) of user
  - Use the sum of a geometric series formula:
  - Equals arpu_monthly * (1 + CRR + CRR^2 + ...) **= arpu_monthly * 1/(1-CRR)**
- CAC: Cost of acquisition of new user
  - This depends on the specific channel strategy; you should be constantly exploring new channels to optimize their CAC

- - A top down way to approximate would be total Sales and Marketing spend divided by number of users within a period of time (e.g. Monthly, Quarterly, or Yearly)
  - LTV/CAC: (ARPU * Lifetime per user) / Cost of acquiring a user + incentives to acquire a user (given by the company & other entities)

You should be able to speak fluently about your financial metrics both in aggregate across the business (e.g., monthly, annually, etc.) as well as on a per user level.

For example, a DEX might look like this (simplified!):
- volume_monthly: $10,000 per user
- fee_topline: 10 bps
- fee_bottomline: 4 bps [after 6 bp rebate to maker]
- arpu_monthly: $10,000 * 4 bps = $4
- CRR: 95%
- LTV: $4 * 1/(1 - 0.95) = $80
- CAC: $50 using a targeted google adwords campaign (with a lot more details needed on how this is feasible) + $0 per user in incentives (assuming no incentives)

When formulated this way, the levers become more clear:
- We can increase the LTV by:
  - (1) increasing volume_monthly, or
  - (2) increasing fee_bottomline, or
  - (3) increasing CRR
- CAC above $80 doesn't make sense right now (because it would be higher than LTV - the lifetime value we calculated for a user)
- **Best-in-class in web2 is an LTV/CAC ratio > 3x**

Incentives and crypto user acquisition (UA)

Incentives only accelerate a business model, they are not a substitute for it. Success (when incentives were involved) does not imply that the business did not also have a sound business model.

A good grasp of LTV / CAC is important to understand which behaviors will be profitable for the company, and therefore token in the long-term.