



**THE LYONS SERIES**

*Little books on big ideas.*

*Dan Lyons*

❖ *VOLUME 3*

# INSIDE THE BOARDROOM

*A CMO'S GUIDE  
TO IMPRESSING  
INVESTORS.*

A PUBLICATION *of* HUBSPOT

## EXECUTIVE SUMMARY

*What should a CMO talk about at the company board meeting? What are the key metrics that investors and board members care most about?*

*We asked six veteran venture capitalists to explain what they're looking for from CMOs of startups in their portfolios.*

*The goal is to help you shine in your next board meeting.*

# INTRODUCTION

*Dan Lyons*

If you're the CMO or VP of marketing at a venture-funded company, you know the drill. Once a quarter your company holds a board meeting, and you're one of the featured acts. You have to get up and make a presentation to the board members, whose ranks include the venture capitalists who have pumped millions of dollars into your company and want to be reassured that their money is being wisely spent.

If you want to do a great job, it helps to know what those folks care about. We asked six venture capitalists to tell us what they're looking for when the CMO makes a presentation at a board meeting. They are:

**STACEY BISHOP**, partner at Scale Venture Partners. Scale is an investor in HubSpot, and Bishop is a member of the HubSpot board of directors.

**BRADY BOHRMANN**, a general partner at Avalon Ventures.

**JEFFREY BUSSGANG**, a general partner at Flybridge Capital Partners and author of the [SeeingBothSides](#) blog.

**PAT GRADY**, a partner at Sequoia Capital. Sequoia is a HubSpot investor, and Grady is an observer on the HubSpot board of directors.

**PAUL SANTINELLI**, a general partner at North Bridge Venture Partners.

**DAVID SKOK**, a general partner at Matrix Partners. Skok writes a [terrific blog](#) about startup life and digital marketing. He's also a board member at HubSpot, and Matrix is a HubSpot investor.

In our conversations with these VCs we heard a few comments over and over. For one thing, the CMO job description has changed tremendously in the past decade, from a role that used to be about creative endeavors to one that also involves lots of analytics. The problem is that not many people have that combination of skills. Several VCs told us that the CMO role is often the most difficult position to fill. "The environment and requirements have changed radically," David Skok at Matrix says.

In general we found that VCs were eager to talk to us about marketing, and that most of them feel that, in most organizations, the role of the CMO is expanding.

"We strongly believe that marketing is much more important than it used to be mostly due to the changing nature of how products are purchased," said Stacey Bishop of Scale Venture Partners, who recently published a blog post, ["The New Marketing Funnel,"](#) which talks about the role of the CMO. Bishop says that when she's in board meetings she's eager to hear from the CMO, and that "most of the time, I don't hear enough from marketing at a board level."

Jeffrey Bussgang at Flybridge has been on both sides of the table. From 1995 to 2000, he was vice president of marketing at a high-flying internet commerce software company called Open Market (IPO 1996). "I remember when I took the job, my CEO said, wryly, 'Congratulations -- every board member thinks they're the VP of marketing!'" Bussgang recalls.

Consider that a caveat of sorts, but we think CMOs and other marketing executives will benefit from knowing what the people on their board of directors expect from them.

To make it easier for you to follow, we've broken this document up into a series of questions with comments from different VCs in each section.



## When you're in a board meeting, what do you want to hear from the CMO? What do you listen for when the CMO presents to the board?



### DAVID SKOK, MATRIX

It's crucial that the CMO is really in tune with how they are contributing to revenue, and understands the whole sales and marketing funnel, from top to bottom. They have to have a very tight partnership with sales. It's very common to see sales and marketing out of alignment.

### PAT GRADY, SEQUOIA

I'm looking for both quantitative information and qualitative information. On the quantitative side I'm looking for a picture of the funnel: where are leads coming from, and for each of those sources (i) what do they cost and (ii) how do they convert through the funnel. There should also be a month-over-month, quarter-over-quarter, or year-over-year overlay so we can see how these metrics are trending.

On the qualitative side, I'm looking for an update on anything we've done to make it obvious to the rest of the world that we are unique and better than the competition, balanced with an update on what the competition has done.

### STACEY BISHOP, SCALE

I want to hear about new marketing activities – new branding, new messaging, new go-to-market strategy or future marketing events -- but I also want to see metrics. I like to see the overall marketing activities, because we all know brand marketing is important but it is harder to quantify. So sometimes just knowing what marketing is doing is really helpful.

I've seen situations where marketing has not provided proper justification and some of the board members may look to cut marketing expenses or not allocate enough to the marketing budget if they don't feel they're getting value. A good dashboard can help marketing avoid those situations. Marketing program spend is very discretionary and can be easily cut. I usually fight to avoid this situation.



### **BRADY BOHRMANN, AVALON**

I always look at the handoff between marketing and sales. Where do you draw the lines? What are your expectations around marketing, your expectations around sales, and do you have alignment around that?

### **JEFFREY BUSSGANG, FLYBRIDGE**

I'm looking for a deep understanding of our target customer, insight into their problems and a clear articulation of why our consumer value proposition is compelling to them.



### **DAVID SKOK, MATRIX**

The number one thing I like to see the CMO doing is contributing directly to bookings/revenue. That means optimizing the sales and marketing funnel. It turns out that the funnel can be measured with only three variables:

- How many leads are flowing through the funnel? (Quantity, or Flow)
- What is our conversion rate for someone that enters the funnel into a closed deal? (Conversion Rate)
- What is the Cost of Acquiring a Customer? (CAC).

Everything marketing and sales is doing should be contributing to those three things. You can walk into a board meeting and pretty quickly tell if marketing is doing its job based on the data they're showing. If they're showing how they are impacting the flow and conversion rate, then you have a good VP of marketing.







## What are the key metrics you always ask about?



### JEFFREY BUSSGANG, FLYBRIDGE

How many tests are we running to test our hypotheses? What primary research have we done to validate our assumptions?

### STACEY BISHOP, SCALE

CAC. LTV. CAC/LTV. Lead funnel metrics. Revenue lift/influence from large marketing events, if it can be quantified. Sources of ARR. Regarding metrics, I specifically want to see metrics that show whether marketing is spending their money effectively. I'm trying to answer the question, "If marketing had more money, could they generate more leads and increase revenue?"



### PAT GRADY, SEQUOIA

What does it cost to acquire a customer, how is that trending, and how does it compare to the value of that customer?

### BRADY BOHRMANN, AVALON

I was in a board meeting recently and we were going over all these metrics and redefining what should be included and excluded from CAC. There's a toolbox of metrics that everyone looks at for SaaS businesses to try to measure whether we are making progress, but I think we are only beginning to understand the nuances of the SaaS financial models. These models are still evolving, so there is no real common set of definitions.

This is a challenge for us in the venture community. A company might say, "We know you think of this SaaS metric this way, that's the consensus, but here is why our business is different. Here is how you should think about us." The minute you ask venture guys or analysts to think differently, you have an exponential increase in your selling challenge. You have to convince them that your thinking is right.





## What slides should the CMO present at every board meeting?



### DAVID SKOK, MATRIX

For me it would be the slide that shows the flow and conversion rate numbers at each stage of funnel. These should be presented with trend line graphs to show how things are changing over time. It should also include a forecast of what is needed to hit plan for the rest of the year. That shows that marketing really understands that it is a key part of how the company hits its numbers and what it had to do to pull that off.

### JEFFREY BUSSGANG, FLYBRIDGE

LTV (Lifetime Value of a customer) v. CAC (Cost to Acquire a Customer) and the underlying drivers.

### STACEY BISHOP, SCALE

I would say there are a few slides:

1. Lead qualification funnel with 3-5 steps: Leads, MQLs, opportunities, close. For a board, three is sufficient, but it should be consistent from board meeting to board meeting, and should always show five quarters of historical data. The current quarter should be actual versus plan. Also, it's helpful to know CPL ("cost per lead").
2. Metrics dashboard that includes CAC, LTV, CAC/LTV and some other financial metrics. Hubspot has a great one, which I've shown the metrics they share here. They report over eight quarters too. Consistency is key. There's nothing more irritating than seeing different metrics board meeting to board meeting. A company should only change or add one or two metrics per board meeting.
3. Lead sources for revenue – sales outreach, organic, paid marketing, channel/partner.

### PAT GRADY, SEQUOIA

We think of it as a funnel on its side. You can go from left to right, using whatever definition you use internally -- visitor to lead to opportunity to deal to customer. So I like to see that funnel slide. Then an org chart, and KPIs (Key Performance Indicators) and your progress toward them. Your "magic quadrant" -- who's positioned how and what's new?

If you have a CMO at that point, he or she should be very engaged in that process -- figuring out what is the message, what does the sales process look like, and how can we make it cheaper, and really scale. You need to be very careful about your burn rate. It can take nine months longer than you anticipate to find a product-market fit. You want to burn as little money as possible, so you have the opportunity to spend time and do more experiments and find the answer before needing to raise money again.

Once you have found product/market fit, and a repeatable and scalable sales process, the focus should shift to scaling the business as fast as possible. Suddenly you move from a company that is spending very carefully, to a company that is spending on sales and marketing as fast as they can afford, while still keeping the funnel conversion rates and costs in line.

### ***MAKING THE MOVIE***

*Paul Santinelli is a general partner at North Bridge Venture Partners, a Waltham, Mass.-based venture firm that invests in software, communications, infrastructure, digital media, healthcare and materials. Santinelli focuses on investments in open source and enterprise software, as well as networking and security. Before becoming a venture capitalist Santinelli was founder and CEO of NOCpulse, a systems management company acquired by Red Hat in 2002.*

*When it comes to CMOs, Santinelli says that of course you need to deliver leads and demonstrate ROI on your marketing budget – but he says you also have to be great at what he calls “making the movie,” which is what he calls the process of shaping a corporate narrative.*

*“You get in the boardroom and it’s all about how well the movie is being made. Is the movie on budget? Is the movie going to make money? Who is the evangelist? Who is the hero? Who is being applauded? Who is our version of Mark Zuckerberg? How are we going to raise our next round? If I invested at \$100 million, is the next round going to be at \$200 million?”*

*Metrics and stats are fine, but they’re not enough. “The ugly truth is that you can be the best CMO in the world, but if you’re not making good movies, you’re no good,” Santinelli says. “You see some deals where you ask, ‘How could that company raise money at such a crazy valuation?’ It’s all about how well they make the movie.”*





## Do you evaluate CMOs differently now than you did 10 years ago? Is there a different skill set today than 10 years ago?



### **STACEY BISHOP, SCALE**

Absolutely. Ten years ago marketing was considered a more creative process. I would now say that an analytical mind is highly valued. The CMO will not need to generate all the reports but they certainly need to understand them and know what action to take from them. The CMO has a difficult job because marketing has changed so much. The number of marketing channels has exploded. The amount of marketing content generated is growing exponentially. Marketers have to constantly try new strategies and new tools.

### **JEFFREY BUSSGANG, FLYBRIDGE**

Yes, we demand that they're more analytical and more product-savvy.

### **BRADY BOHRMANN, AVALON**

A lot has changed. There is a whole different toolbox now available for companies to do very creative, dynamic marketing. This new set of tools includes everything from Google Analytics to a variety of SaaS metrics. Content marketing alone is very different today than it was just three to five years ago.

I think we are culturally moving into a world of data and data analytics. We're having a cultural shift that will find its way into marketing. People not only have new tools, but they also have an inclination to analyze things differently. I see this as something that will continue to evolve. I don't see it stopping. It's a great time to be an analytical marketer.

### **PAT GRADY, SEQUOIA**

There have been some very powerful macro trends impacting the role. Marketing used to be low-tech, and offline, and now it's high-tech, and online. It used to be about outsourced services, and agencies, where today it's more about in-house talent and employees. We've gone from being qualitatively driven to quantitatively driven. We used to have a small number of consistent channels, like trade shows, and print, and now we have a large number of constantly changing channels, like Twitter, Instagram, mobile, meet-ups, and so on. There is also the shift from outbound marketing to inbound marketing, which makes marketing more important than ever before, because sales is handicapped without you.

All of this makes marketing enormously complex and confusing and difficult to manage, which also makes it that much more of a competitive weapon. Most companies will screw it up, but those that nail it can create massively outsized advantages for themselves. So our general level of scrutiny has gone way up. What we scrutinize is the ability of a CMO to traverse the spectrum from simple and artful to complex and scientific.

### DAVID SKOK, MATRIX

The old CMO was someone who was very creative, but not necessarily much of a process person or data-centric person. The new CMO is very data-driven and great at process definition and management. However they still need to retain their strengths in creativity to come up with programs that get heard by the customer amidst the noise. They also need to be familiar with the new buyer's journey that bypasses most of the old marketing playbooks, and use inbound marketing techniques. A good CMO today will also understand and use the many new technologies that have emerged to help with the process.



For high-tech CMOs it's also crucial to understand the role of the product (i.e. free trial, freemium offering, or proof of concept). In this funnel, the product has an enormous impact on the conversion rates. Product design is not being handled by a sales or marketing person -- it's the role of the product manager. A good CMO has to break down the silos not only between marketing and sales, but also between marketing and product management, so you can really tune the customer experience in a free trial to optimize the outcome. I wrote a blog post recently about the concept of "Time to Wow." If you can get someone to "Wow" in five or 10 minutes, that's enormously important. A typical product designer is not necessarily thinking of that, and may need prompting by the CMO.





## What are you looking for when you're helping a company hire a CMO?

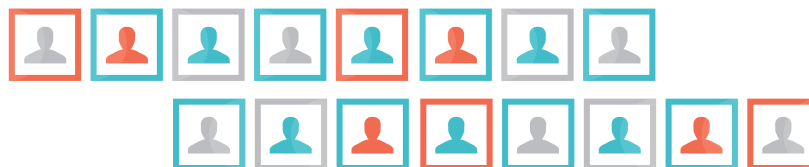


### DAVID SKOK, MATRIX

In a Phase One company it's not necessarily clear that they are ready for a CMO. The moment they've made a few sales and have a few customers, then they need a CMO. But you have to be careful. If the CMO comes from a big-company background and can't do stuff themselves and they need staff, that's the wrong person to bring in. You need an executive level thinker that is also great at execution and is willing to roll up their sleeves in the early days. For a Phase 3 company, I'd look for someone who is really creative and good at creative problem solving, as well as numerically and analytically driven. That's a tough combination. It's a very hard thing to hire for.

### PAT GRADY, SEQUOIA

IQ and drive. This is a very hard position, and a very tricky hire. A good CMO is harder to find than a good engineering leader or a good sales leader. Marketing has changed so much in the last 10 years that a long and impressive resume really doesn't count for that much anymore, although the most recent five years does. What's more important is the hunger to prove something and the IQ to adapt with the times.



### STACEY BISHOP, SCALE

CMOs today have to wear many hats. They have to be both creative enough and analytical enough to handle the challenges they face today. They need to analyze multiple data sets to know where to spend money and they need to still create a company brand and identity. However, early on, I've seen more startups focus more on the analytical marketing types who can help generate inbound lead flow by testing different strategies and different channels.

### **JEFFREY BUSSGANG, FLYBRIDGE**

We're looking for a blend of creative and analytical, someone who can understand classic brand strategy and positioning, as well as modern online marketing techniques. We're looking for someone with a blend of product skills and sales skills, who can be a strategic thought partner to the CEO. I don't know if it's the toughest position to fill, but it is tough to find candidates who are able to think broadly and strategically while also being able to execute in the weeds, all without much of a budget!

### **BRADY BOHRMANN, AVALON**

The requirements for the job and the characteristics of the individual are quite different in the different stages of a company's life. In the Boston area, it is one of the hardest hires to fill. For an early stage tech company, the right CMO or head of marketing is a really difficult hire to get right, particularly if it is your first time hiring one into the company and if the company is growing into the need. It's very challenging.

For an early stage company, I actually think there's almost a "growth hacker" skill set that is needed. We need to hack our way to the first 20 or 30 customers and do some experimentation. There's a coalescing that goes on in the early stages that takes a flexible, dynamic person. To use an analogy: are you drafting by position or drafting the best athlete you can find? In the early stages of a company, it's often best to draft a marketing athlete rather than a marketing position player.



## WHAT A WELL-RUN BOARD MEETING LOOKS LIKE

*David Skok was a serial startup entrepreneur before becoming a venture capitalist in 2001. He's a computer scientist by training, but in recent years he has become deeply interested in marketing automation and the analytical approach to marketing that has been made possible by digital tools. He's written extensively about the subject on his blog, [For Entrepreneurs](#), which should be required reading for anyone working in startups.*

*Here he describes an example of the kind of alignment between sales and marketing that he's looking for in a board meeting.*

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A very common problem in B2B companies is a lack of alignment between sales and marketing. Sales believes that marketing isn't doing their job as they aren't delivering enough leads for sales to work on. However when you talk to the marketing group, they're angry at sales as they just delivered a ton of new leads to them, and sales called only a few of them and then gave up.

The root cause of this problem is that the leads marketing are delivering to sales are not of a high enough quality – i.e. the buyer hasn't been qualified in terms of whether there is a real need and intent to purchase in the near term, as well as a budget allocated. Salespeople's time is expensive, and when they call very poorly qualified leads, it is a waste of their time, so they don't bother. The solution is to create a contract between sales and marketing that defines what attributes a lead has to have before sales will spend the time to work on it. The contract also needs to define how many leads are needed to hit target.

Let's say you have a CEO who is dying to tell the board, "I'm going to grow 3x," and he drives his sales guys to come up with a number, doing top-down forecasting. Looking at the fourth quarter of the plan, you can see it requires you to book \$2 million in revenue in that quarter.

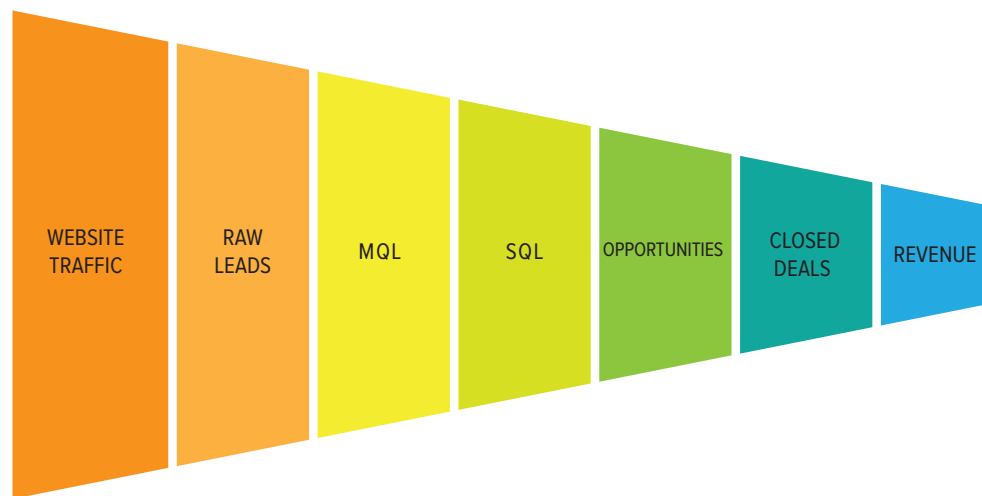
If the average deal size is \$100k, then you can divide \$2m by \$100k, which means you need to close 20 deals.



If the past conversion rate tells you that 25% of opportunities become deals, we can see that we need 80 opportunities in the pipeline.

If the conversion rate from SQLs (sales qualified leads) to opportunities is 20%, you need 400 SQLs.

As you work your way back up the funnel, applying each conversion rate, you can see how many MQLs (marketing qualified leads) and Raw Leads are required to meet that target.



So for sales to hit their target, you need a contract between marketing and sales. The contract defines how many MQLs marketing needs to deliver, and what qualification attributes should be tested for a lead that Sales will accept and take the trouble to work.

From the marketing side of the house, they want a guarantee from sales that they will work the leads that they deliver, and within a certain time period (as leads deteriorate rapidly within hours if not contacted).

When I'm in a well-run board meeting, that information is known and being forecasted at the same time as the business plan is being made, and everyone is in sync about how to achieve that plan.



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