

# Validation vs. Learning: What Went Wrong With FamDoo?

Jay Ebben (University of St. Thomas)

Alec Johnson (University of Saint Thomas)

**KEYWORDS:** Lean Startup, case study, Entrepreneurial process, Business Models and Strategy.

The creators of a digital tool for parents to motivate their children had validated their idea through research, but the company failed. This case study and course explore what should have been done.

This case is intended for undergraduate or graduate entrepreneurship courses that use Ash Maurya's Lean Canvas or Osterwalder's Business Model Canvas. The case is designed to give students an introduction to using these tools to develop hypotheses and hypothesis tests. Analysis of the case is divided into three segments that follow the general sequence with which a Lean Canvas or Business Model Canvas should be filled out: 1) Problem/Unique Value Proposition/Customer, 2) Solution/Channels/Competition, and 3) Economic Model. Through this application, students will gain a better appreciation for how to approach early-stage market research and avoid common pitfalls.

The company in the case, FamDoo, spent almost \$2 million developing and launching an online platform to help parents manage chores and allowances and motivate their children through the use of redeemable points. Although the company's research prior to development seemed to validate the concept, the platform has struggled to attract users and generate revenue. Applying the Lean Canvas and/or Business Model Canvas reveals assumptions the company was making that should have been challenged, and students are asked to frame these assumptions as hypotheses and discuss what was missed in FamDoo's market research. Students are also asked to identify how these hypotheses might have been better tested prior to making a significant investment in the platform and what options the company has moving forward.

This article describes the history of FamDoo, and the teaching notes and six appendices (*available above for downloading*) provide the material needed to conduct the class and engage students in applying key principals.

## Introduction

On a cold, grey December day, what was left of the FamDoo team sat around the conference table at a northern Wisconsin lake cabin owned by the company's founder, Mark Lacek. Mark opened the meeting by saying, "I've started and sold seven other businesses and FamDoo is by far the most difficult." With only \$200,000 of the \$2.1 million investment remaining, a burn rate of \$25,000 a month, and less than 500 active users, Mark laid out options and acknowledged mistakes. "We built too many features, we tried to do too many things, and we left ourselves no room with the technology to change what we are doing," he said.

With the need to cut the burn rate, Mark had trimmed his team from five to two and re-negotiated the remainder of his technology contract from \$12,500/month to \$2,500/month. He was now considering an entirely new set of options, but calling it quits was not yet one of them.

## Background

Mark Lacek showed up at the University of St. Thomas in February 2012, looking for undergraduate students who could perform market research for his newest business concept, The Learning Bank (TLB). Mark's personal mission was to "close the education gap in America" and wanted to develop a platform to motivate kids to engage in additional educational activities outside of the classroom. Mark had built an extremely successful career around loyalty marketing (see Appendix 1) and believed a points-and-rewards program could be the right tool to achieve this.

Mark had hired Mary Kenry, a recently minted MBA from the University of Wisconsin, to lead early research activities. Under Mary's guidance, two student teams from St. Thomas were formed to conduct in-depth market research: one team to perform competitive analysis and financial modeling, and another to conduct primary and secondary customer research. In general, the research revealed that there were many competitors in the online education space, not the least of which was Kahn Academy. Furthermore, there was no clear opportunity, pattern, or gap relative to education outside of the classroom. Primary customer research indicated an interest in "gamifying" learning, but the research also showed that this would be costly, and many competitors were well ahead of TLB in this space. Further, it was unclear how to monetize this concept with parents in a meaningful way. The research, taken in its totality, suggested that Mark should pivot away from education.

One idea that had surfaced in customer research was that of gamifying chores. Mark loved this concept, as he believed that developing good habits in other aspects of life would spill over into education. After several discussions with advisors, TLB was rebranded to "FamDoo - The Modern Allowance," with a mission centered around building the whole child and a tag line of "Do. Learn. Be." The new concept would provide children with an opportunity to earn allowance by performing tasks that included traditional household chores, educational activities, and volunteer service.

As an example of what Mark had in mind, a parent might set up a task for their child to clean their room. The parent would assign a number of points, and when the child could verify that the task was completed the parent would award the points. After enough points were accumulated for tasks, the child could save, donate, or spend the points, which would be funded by the parent's credit card.

## Part 1: Problem, Customer, and Value Proposition

By late summer 2012, Mark had built a team and launched an ambitious research program with the goal of identifying the best child age groups, their tendencies, and their parents' interest in a platform used to develop the "whole child," which included the categories of academics, health, family, money, and community. The initial primary research activities

included 1) Focus groups with parents and children; 2) Interviews with parents, teachers and children; and 3) Survey research with a national audience of parents.

Results from this research were positive: kids liked the idea of earning points for rewards and the save/spend/share options for redeeming them, and parents liked the idea of incentivizing positive behavior and the branding around developing the "whole child."

In spring of 2013, armed with the research results, Mark pushed forward with fundraising, branding, and platform development (see Appendix 2 for excerpts from the investor pitch deck that displayed survey results). Based mainly on input from his high-powered advisory board, he sketched out the features his platform would include, and hired a firm to begin development of both the web and mobile applications. He also hired a firm to assist in developing the brand and visual appeal of the FamDoo app.

One of Mark's advisors introduced him to a TED Talk by Simon Sinek titled, "How Great Leaders Inspire Action"<sup>[1]</sup>. Mark took Sinek's words to heart and built a set of guiding principles around Famdoo's "Why:"

- Parents don't believe they are parenting to their capabilities, much less their expectations.
- Today's technology has created a digital divide that is creating a growing gap between parents and their kids.
- Neither parents nor children have material free time to actively engage in constructive and endearing conversations.
- Kids really do want to please their parents.
- Kids lack some of the core attributes required to enter adulthood.

## Part 2: Solution, Channels, and Competition

The company would pursue its "Why" via a revolutionary new approach that combined a web and mobile experience as a task management tool for parents and reward system for kids (see Appendix 3). The tool would provide parents the ability to assign tasks and children the ability to earn points for completing these tasks. There would be three categories of tasks: 1) Do: Indoor/Outdoor/Custom chores around the home; 2) Learn: Math/Vocabulary exercises and more; and 3) Be: Social issues, values,

career planning.

For the next eight months, Mark and his team set out to build important marketing and media relationships with the goal of a public FamDoo launch in late January 2014. The strategy was comprehensive and included a number of public relations and other tactics (see Appendix 4). These included landing a local television spot, identifying nationally known influencers, employing a social media agency to develop relevant and targeted social media campaigns, and most importantly, securing a partnership with US Bank. US Bank agreed to several activities, which included sending outbound marketing emails to their FlexPerks members, promoting the use of FlexPerks to fund FamDoo points, and mailing out FamDoo promotional inserts with customers' bank statements. This aggressive plan also required a significant expansion of the team, and Mark brought on several hires to assist with the launch.

For competition, there were several existing companies that provided some combination of chore management, allowance management, and/or money management tools for kids. These competitors included:

- FamZoo: Promoted as online family banking designed for kids and parents with the tagline "The Virtual Family Bank."
- MyJobChart: An online chore management tool with the tagline "Where Kids, Work, and Rewards Click."
- ThreeJars: Promoted as a site where kids learn to earn and use money responsibly with the tagline "Spend, Save, Share."
- Chore Monster: An online chore management tool with the tagline "Make chores fun by engaging and rewarding your kids!"

While providing some of the same functionality as Famdoo was proposing, these competitors were branded differently, and none had achieved mass adoption. Mark believed that Famdoo's differentiation came from its focus on the "whole child."

### Part 3: The Economic Model

The final piece of the puzzle was implementing a revenue model that made the overall economics of Famdoo attractive. Mark and his team envisioned three revenue streams around funding and redeeming points:

**Fees on Credit Card Charges:** FamDoo originally

planned to charge a 20% fee when a parent funded points for a child. For example, if a parent needed to fund \$70 of points earned by their children, FamDoo would charge an additional \$14 in transaction fees. However, this created adoption issues in the initial launch, as parents thought this was too expensive. In response, FamDoo pivoted to a flat \$2 fee per credit card transaction.

**Gift Card Sales:** One method of redeeming points was to purchase gift cards. If a child selected this option, FamDoo would make approximately 4% of the face value of the gift card, which was standard in the industry. Gift cards were the only way point redemption would be monetized, as the "Save" and "Donate" options for redeeming points had no transactional value for FamDoo.

**Carried Interest:** FamDoo would collect interest on the balance of points that had been funded by credit cards, but not yet redeemed by children. FamDoo could expect to earn roughly 2% annually on these balances.

In building out revenue projections based on the economic model above, Famdoo made the following key assumptions:

- On average, a child would earn \$31/month of redeemable points.
- Half of the points earned would be redeemed via gift cards.
- Parents would carry an average account balance of \$50.
- Parents would add money to the account once each month.
- A family would on average have 1.25 child accounts.

On the cost side, Famdoo had invested more than \$1.5 million in building and branding its platform and spent \$240,000 on an initial marketing campaign to US Bank customers. The initial marketing campaign resulted in about 8,500 family accounts and 14,000 child accounts, coming out to a cost of about \$28 per family account created.

### Results of the Initial Launch

Near the end of 2014, the status of FamDoo was well below the team's expectations. Gerry, the Famdoo team member responsible for gathering and assessing platform engagement data, noted, "The concept,

general consumer need, branding, and business model have all received generous praise, but FamDoo has been unable to acquire, engage, and retain a user base with any significant speed or efficiency.” Mark decided it was time to perform a thorough analysis of usage data to better understand what was happening (see Appendix 5).

[http://www.ted.com/talks/simon\\_sinek\\_how\\_great\\_leaders\\_inspire\\_action](http://www.ted.com/talks/simon_sinek_how_great_leaders_inspire_action)

The data raised significant questions about the team’s original assumptions. One striking observation was that parents were not putting money in their accounts until their child was ready to redeem the points. This meant that there was very little cash reserve carried by FamDoo, which essentially eliminated one of its three revenue streams. Additionally, Gerry noted that only 50% of parents who created accounts went on to assign tasks for their child to perform; the other 50% never moved forward to actually use the platform. Further, only about 10% of those who had created tasks went on to spend money in the platform, and less than half of those who did spend money went on to spend money a second time. All in all, only 424 of the 8,589 family accounts that were created spent money.

The question of why was directly tackled in a new round of consumer research, which incorporated surveys, open-ended phone interviews, emails, and in-home observations. It became clear that the platform was not as straightforward as the FamDoo team had envisioned and that not all the features and functionality were well-received. The research responses revealed that parents were turned off by the time it took to set up accounts and assign tasks, confused on how to redeem points, and frustrated by the fact that there was no way to reward their kids in cash, among other issues (see Appendix 6).

## What Next?

With the numbers and feedback from users bleak, Mark called a meeting at his cabin that December. The marketing campaign with US Bank had resulted in over 8,500 parent accounts and 14,000 child accounts, but just \$24,000 in rewards, and it was clear the app was not providing the value they had envisioned. In a spirit true to Mark and his previous success, he was not ready to throw in the towel, but the situation called for honest discussions about where to take the platform next.

*NOTE TO EDUCATORS: Teaching notes and appendices can be downloaded above.*

[1]