PERFORMANCE METRICS

Tech start-ups come up with some creative definitions for 'profitable'

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Last September, SpoonRocket was running out of money. Founders of the Berkeley, California, meal-delivery company had initially sold investors on aggressive expansion plans and the promises of a high-growth business. By the time it completed a planned rollout to San Diego and Seattle early last year, the funding environment had changed. Venture capitalists had begun to prioritise profit over growth.

After just a few months, SpoonRocket retreated from its new markets and focused on improving the economics of its business. "For a long time, we were like, 'Let's get profitable; let's get profitable; let's show the margin can get profitable,'" said Anson Tsui, co-founder and chief technical officer.

Their efforts failed to achieve profitability by conventional definitions. However, the startup calculated that the business had become "contribution margin positive," meaning that it sells an item—in this case, pre-made meals delivered to customers—for less than the cost to manufacture, distribute, and sell it. There is, apparently, some wiggle room in what expenses can be left out. Tsui said SpoonRocket's definition included the costs of food, delivery worker pay, utensils, food waste, distribution center rental, and certain marketing programs. It excluded costs of customer service, central employees, office rent, and marketing to drivers.

After all that careful math, SpoonRocket's contribution margin was 50 cents to $1 per order, Tsui said. The founders prepared a new pitch for investors highlighting this milestone. "We showed them, and they were just like, 'Oh my goodness, you guys spent $13 million to squeeze a $1 margin out of every order?'" Tsui recalled. SpoonRocket shut down in March and sold some assets to a food delivery company in Brazil.

After a boom in funding for on-demand startups beginning in 2014, investors have started pulling back. Financing for on-demand companies has dropped in the past two quarters, even as competition in this young industry becomes fiercer, according to market research firm CB Insights. To project a healthy business to skeptical VCs, job candidates, and potential business partners, companies have started shouting to the world how they are (or soon will be) profitable—at least, by some definitions of the term.

Uber said it was profitable in the US and Canada during the first quarter of this year. Lyft said it is "on a clear and defined path to profitability." Postmates said it will be profitable by the end of 2017. DoorDash is "cash-flow positive" in some markets. TaskRabbit will be "profitable" by the end of this year. It "won't be too long" until Airbnb is profitable. Instacart is "gross margin profitable." Luxe Valet is "on the precipice of being profitable" in some markets. At Y Combinator's demo day in March, many bright-eyed entrepreneurs clinched their pitches with a robust "and we're already profitable!"

Kai Pfaffenbach/Reuters

Cherry picking : *When Uber said it is profitable, the company did not account for equity grants to employees, along with interest and taxes.*

Tech startups are increasingly touting a mix of less common financial metrics, even as their public counterparts move more toward generally accepted accounting principles. Amazon and Facebook recently began breaking out employee stock compensation in more of their results, bowing to pressure from regulators and investors. LinkedIn and Twitter still focus on numbers that exclude equity costs.

When Uber said it is profitable, the company similarly left out equity grants to employees, along with interest and taxes. Its main ride-hailing rival in the US, Lyft, declined to elaborate on its "path to profitability" statement, leaving questions about how or when it will reach its destination. Airbnb also declined to provide details on an executive's profitability comments. TaskRabbit said "profitable" means it will turn a net profit but declined to say whether specific costs such as equity grants and taxes were included. Postmates, the courier service, used a profitability calculation that doesn't include taxes.

Several startups slice their numbers by markets to demonstrate financial maturity in certain cities or countries. Again, the criteria for what's included in those calculations can vary. Instacart told *Bloomberg* in February that it was profitable in its biggest markets and that 40% of its volume was profitable. The company later clarified that it meant gross margin profitable, which is usually limited to direct costs such as supplies and delivery labour. Instacart's calculation leaves out other costs, such as customer service, central office salaries, rent, and the cost of acquiring its workers. Instacart also said it is gross margin profitable, on average, across all its markets.

Luxe, an on-demand valet parking service, said it's currently profitable in some cities but declined to name them. The company defined "profitable in a market" as gross profit, excluding central operations costs. DoorDash, which delivers food from restaurants, said its cash-flow positivity is limited to its "earliest markets" and includes customer service and salaries of regional workers but leaves out central rent and operations.

Bill Gurley, a partner at venture capital firm Benchmark and an early backer of Uber, said the motivation for companies to watch their spending is something to be celebrated. However, observers should be wary of taking numbers given by private companies at face value, he said. "They clearly must be feeling pressure," Gurley said. "Everyone's been in this mindset of, 'Oh, it's so great being private. I don't have to say anything about my numbers.' And now people are volunteering stuff. Clearly, we've evolved."

In today's tighter fundraising environment, having an aura of a sustainable business can give companies a step up, said Sean Behr, who runs San Francisco startup Zirx. "You meet investors, and they're like, 'Oh yeah, we heard you're profitable. We'll definitely take the meeting,' " Behr said. "You're also talking to your current employees and prospective employees, letting them know, 'We're not going to be shutting down. We're going to be around, and you should be excited and feel confident in the company.' "

Behr's startup began as an on-demand valet service, similar to Luxe, but he changed course after deciding it wouldn't be sustainable. Now Zirx's main business lets car dealers and other companies summon its drivers to drop off vehicles to customers or take them for an oil change. Behr said Zirx will be gross margin profitable for the first time this month.

"You can always say, 'We're profitable if we don't include X,' " Behr said. "But no matter how many ways you say you're kind of profitable, if your bank account ends up lighter than when you started—eventually, that doesn't work." BLOOMBERG