TEN CAPITAL NETWORK

THE ART OF PITCHING

eGuide

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WHAT INVESTORS LOOK FOR & HOW TO ANSWER THEIR QUESTIONS

What Investors Are Looking For

Startups can be pretty shy about discussing their current revenue when they are in the early stages of the business. This is typically because, in the beginning, the revenue is not a large sum.

One of the most important things to understand as an early stage startup is this:

The investor doesn't care about the size of revenue.

What they *do* care about is the predictability of that revenue.

Investors look for systems in startups regardless of the size of the company.

As a startup, ask yourself:

- Do you have a process for finding customers?
- Does that process introduce them to your product?
- Does that process also include closing?

If you have a sales funnel, it's helpful to share that with the investors. This is key because the investor can then see the traction you have in your sales prospecting process. Use the funnel in multiple investor updates to show how prospects are moving through it.

After a few months, make sure to capture the metrics of that flow including:

- The average number of leads turning into sales
- The average time from lead generation to client closing

Your goal here is to show a system that is up and running by emphasizing the predictability of the numbers.

When speaking with investors mention your process with phrases such as:

For every 10 leads, we generate 1 customer worth $5000 in revenue.

This is the exact magic investors are looking for because it shows that you have a system with repeatable and predictable outcomes.

How to Answer Investor Questions

During the funding stage, your startup will spend a lot of time meeting with many investors in order to answer their questions.

As a new business, many startups often wonder how they are supposed to answer the investor's questions. Answering investor questions is pretty straight forward. There are just a few things you are going to want to keep in mind.

1. Listen to the question.
2. Answer it directly and be to-the-point about it.
3. If the question requires a number, then give that number.

For example, if the investor asks how much revenue you have, answer with:

We have $200K of revenue so far this year.

Be careful with answering every question with a long, drawn out, story. The reason you should proceed with caution here is because this takes time and often misses the key information that needs to be communicated to the investor.

If the investor wants to hear the backstory for a particular question they will ask, so don't feel the need to tell the investor every single piece of information you have.

Keep in mind that the investor often has a list of questions to go through and they have a limited amount of time. Not responding with direct and to-the-point answers lengthens the process.

Additionally, some investors may interpret the long and winding response as avoiding the answer which raises a red flag, so it’s best to be straight up.

ANECDOTES, NUMBERS & CLOSING A FUNDING ROUND

Your Anecdotes Tell, but Numbers Sell

Let’s say you’ve started a business and you now find yourself pitching in front of investors.

With your business, you’ve spent $5k to test out your business model and found that you can sign up 1 customer for every dollar spent and you tell the investors how much revenue you can generate with each customer.

As you speak, you find that the investors are very engaged with your pitch while you are talking about the numbers.

Later on in the discussion, you tell the investors how great the product you're selling is and speak generally about the product but not specifically about the business. Suddenly, the investors’ eyes start to glaze over. You’re not sure what happened when everything seemed to be going so well. Here’s the secret:

When it comes to investors, anecdotes tell, but numbers sell.

1. Use numbers when you talk about your business. Demonstrate your expertise and the results of your research with specific facts.
2. Show the unit economic numbers around your business model and make the case that you have a business that works.

Make sure you don’t show up with general anecdotes as you may see the investors’ interest wane. The goal of your pitch is to sell, not tell.

How to Close a Funding Round

After you've built your fundraise campaign and your list of interested investors you will then move on to closing the funding round.

Here are some pointers to keep in mind when it comes to closing:

1. Sort and prioritize your list of target investors.
2. Compile your diligence documents so they are ready to go and make sure the investors know the diligence box is ready and available.
3. If the diligence box has sensitive information that requires an NDA, consider having two versions of it. One version can be confidential and the other non-confidential. This allows you to offer your diligence to move the process along without giving out sensitive information.
4. Setup a call to walk the investor through the diligence box so they know where everything is. Make sure to find out if they need more information.
5. Communicate that a closing is coming up and always emphasize the close date.
6. Update the investors on the outstanding interest in the deal.
7. Provide updates to investors showing funds raised is increasing slowly, but surely, as you approach that date. If you don't communicate an increasing raise amount, then most will not take the close date seriously.

For each investor discussion take the conversation to the next level as follows:

1. Interest

Would you invest or not?

2. Amount of investment

What number do you have in mind?

3. Committed

Can you commit to that number? If not, what holds you back from committing?

4. Date of investment

What date before the close can you commit to sign the docs and wire the funds?

In each email or call, propose the date and time for the next call to keep the follow-ups happening in a timely manner. Also be sure to communicate the following raise will be at a higher valuation. If the investor is going to commit, they will do so for the better valuation. Finally, offer an incentive to come in on the target close date, such as redemption rights, warrants, etc.

HOW TO AVOID COMMON PITCH DECK MISTAKES

Mistakes to Avoid

Putting the right pitch deck together takes time and practice. It's not something individuals often get correct on the first try. However, in developing a pitch deck, there are several mistakes that are common among entrepreneurs that you can avoid.

One of the most common mistakes is trying to explain, in great detail, how the product or technology works. This isn't necessary. Instead, use the pitch deck to focus on the benefits of the product and what the product does for customers.

Save the detailed explanations for later on in the process when you are in diligence.

Some other common mistakes to watch out for are as follows:

1. The pitch deck does not identify the competition or claims there is no competition.
2. The font of the deck is so small that no one beyond the first row can read it.
3. There are too many words being used. Overuse of words can distract the reader.
4. The flow of the slides does not follow a logical story form.
5. Market sizing is used to distract the audience from the fact that you have no traction.
6. There is no investment ask at the end, so investors are left wondering what you want from them.

The pitch deck should focus on your:

- Core product
- Team
- Customer
- Fundraise

The more extensive details can be fleshed out later.

Finally, the biggest mistake you can make with your pitch is not asking questions and not listening. Most startups spend their time talking when they should be listening for objections and concerns. Pay attention and welcome questions from your potential investors.

What Your Pitch Deck Should Do

A pitch deck is a brief presentation that provides your audience with an overview of your business. Ideally, the deck should answer any questions an investor might have.

The basic goal of the pitch deck is to introduce your deal to an investor. Additionally, the pitch deck should also serve as a way to show exactly what is essential to an investor who may be considering an investment in your startup.

What a pitch deck is not is a means to explain the full history of your company. It is also not a means to explain how your product works.

Tips for Pitch Deck Success

After you've made your pitch, be sure to schedule a follow-up meeting with the investor.

Good pitch decks show:

1. What you are doing within your given sector.

2. What opportunities there are to grow more with funding.

An ideal pitch showcases the proposed outcome of the business is going to happen with or without the investor. In other words, your pitch deck should show that the outcome is inevitable.

Ideally, you want to use your pitch deck to show potential investors that the results are there. Put those results up for everyone to see and show them what you have accomplished so far. The slides of your deck serve as the presenter, not the other way around.

Remember:

You are the presentation. The slides are the presenter.

When pitching, avoid discussing multiple scenarios. Investors will find it difficult to keep track of what you're trying to accomplish.

Most importantly, focus on the core message:

- It's one product
- It's one team
- It's one market
- It's one fundraise
- It's one outcome

WHAT'S YOUR STORY?

Tell Your Story

When pitching your business plan use the story format for greater impact.

1. Start with the problem you faced in the industry.
2. Show how you couldn't find a solution.
3. Show how you created your own solution.

After you address the issue of not finding a solution, be sure to show how others are now coming to you for that solution. Along the way you can talk about how you built the team and chose a go-to-market strategy.

4. Highlight the challenges you overcame.
5. Show the current business status and your upcoming plans.

Each element of the story should highlight one aspect of the business plan. A story format keeps your audience engaged throughout the pitch because it flows smoothly and moves the audience along from point A to point B in a logical manner.

Your Growth

One of the biggest misconceptions in the startup world is that one must first raise funding and then launch and grow their business. In reality, the ones who raise funding have a growth story. More importantly, it's a growth story they can communicate effectively to investors.

Investors funding startups look for market validation and product validation. They want to see that the product works and people will pay for it. This isn't to say that there are not some investors who fund deals based solely on the team, the space, or the technology. However, these tend to be rare examples.

Most investors look for a growth story.

They look for an operational revenue model in the business with increasing numbers on:

- Sales
- Team
- Product
- Fundraise

Many startup entrepreneurs avoid talking about their current revenues because they think the investor wants to hear big numbers. This simply isn't the case.

If your company is pre-revenue you can show how the business model is successful based on the unit economics level. Show that you can generate leads, qualify, and close them for revenue that exceeds the cost of acquiring and fulfilling the customer. Over time, you can improve these numbers.

WHAT YOU NEED TO BRING TO THE TABLE

When you are raising funding, investors want to know what progress the company is making.

After the initial presentation, the investor wants to hear about progress in four areas:

1. Sales
2. Team
3. Product
4. Fundraise

Updates on the market size, growth and the competition status are not of interest. The most important thing to understand is that the investor wants to know what *you* are doing. Focus your updates on these four core items in each communication with the investor to give them a sense of traction and momentum.

Sales

Most startups focus on the product first and treat the customer as an after-thought. However, the investor knows that in the long run, customer revenue will make or break your business, not the product. Even before you have a product you should be talking with customers about their needs and relaying that to investors.

As you build the product, you want to maintain customer interactions with you and your product and share that with investors.

When talking with investors, be sure to highlight the customers' problems and the solution they would like to see. It's important to show the investor that customers are with you on your journey and they are not something to be recruited later when the product is done.

The Team

Investors will look closely at your team since they are a crucial part of your company's potential success.

One of the first things investors will look for is skill and completeness. Your team must have the skills needed to accomplish the work. Investors also want to know that you're not missing anything important when it comes to the structure of that team.

At the seed level, a complete team consists of:

1. An individual who is building
2. An individual who is selling

You cannot have a team where everyone is building and no one is selling.

Focusing on building without selling is one of the most common mistakes startups make by thinking they must have a product before they can sell it. In reality, you should be selling your product as soon as possible. You may not be generating revenue, but you should be bringing the customer through the process just as you are doing so with the investor.

Product

Sometimes entrepreneurs spend a large amount of time writing a massive business plan that talks about the startup's services and the benefits that come from those services. The problem is, it can focus so much on the benefits and services that it becomes hard for an investor to understand exactly what the product is.

Investors want to know what your product is; not just your technology or the benefits it offers. You must show the product and define it clearly so investors know how you will approach the market.

Make sure the product has a name when you're going to pitch. This helps establish the product as a tangible thing in the investor's mind even if the product is still in development.

Tell the investor what the product is in 5 words or less so they have an understanding of exactly what it is you are selling. Even if the product is not yet ready for sale treat it like it has form and function *now*. This helps investors grasp what you are doing.

IP

When it comes to investing, investors tend to look for protection over the idea they are investing in.

Patents and trade secrets can help.

The truth is, ½ of the value of a patent is simply for show because investors want to see it. In practice, it's difficult to use patents as the sole means for protecting your business from the competition; however it can still help in the long run.

If you have patents, investors want to know:

1. What was filed
2. When it was filed
3. If it is a provisional patent, design patent, or utility patent

Most investors don't expect you to have awarded patents for utility or design patents since the process typically takes over 3 years to complete.

If you don't have any patents, consider filing a number of provisional patents so you can tell investors that you have a patent pending technology.

One advantage of provisional patents is that it gives you a year to figure out if patents can provide any reasonable protection. If so, then file for a full patent.

Keep in mind that you don't have to pursue patents if it doesn't make business sense in the long run.

Fundraise

Investors look for traction in your fundraise just as they look for traction in your core business. During a raise, investors will first express interest and then make a commitment before they invest.

You want to capture all 3 levels in your pitch in a fundraise.

1. Add up how many investors have expressed interest.

This is often called soft-circled interest. Present that number as investor interest.

2. Take all the committed amounts of investment and add that number to your presentation as well.
3. Take the amount of funding that has come into your bank account and show that number.

Over the course of the campaign those numbers will change. Make sure you show the prospective investor interest from other investors throughout the campaign.

METRICS AND HISTORICAL NUMBERS

Your Metrics

Investors look for the metrics in your business, so it's important to know exactly what those metrics are. There are 3 levels of metrics you can present to investors:

1. Activity metrics

Activity metrics show the basic activity of the business.

2. Unit economic

Unit economic metrics show the unit economic model including cost of customer acquisition and revenue.

3. Growth metrics

Growth metrics show the growth in the user base and usage of the product.

Historical Numbers

Most startup pitches focus on their future. And why wouldn't they? It's bright. The numbers are growing. The sky's the limit.

The question is:

How much do investors put behind those startup forecasts?

Well, it depends on the historical numbers the forecast is based on.

If there’s a consistent track record of historical growth, then the forecast has credibility. If there’s no historical record, then the forecast does not have much credibility.

Always show your historical numbers to establish a baseline and show how you can move from the historical to achieve the forecast. Most startups hang their forecast on market potential alone, but you need to also show how you can execute to obtain it.

This could be:

- a new team member
- another product
- a new market segment

Help the investor connect the dots and don’t expect anyone to take a flying leap without a good reason to do so.

HOW TO SHOW TRACTION PRE-REVENUE

If you are pre-revenue, don't worry, you can still show traction with your startup. This traction is defined as customer activity and you don't need to have revenue to show there's traction with customers. In order to show you have traction pre-revenue, focus on customer engagement at all phases, even before you have a product. The point here is that you should have customers coaching you on what product to build.

When communicating with investors, always include the customers in your discussions. Never engage an investor meeting without new information about your customers and always mention it.

When you are pre-revenue, you can still talk about the prospective customers you are working with to build your product. **Highlight what those customers are saying about the product.** The customer problem is the most important thing to focus on because it shows you are close to a source of revenue and you are working towards obtaining that revenue.

Make sure you are able to name the customers; both the company and your contact. Never talk about the customers as a general group with vague and fuzzy references. Always talk specifically about the problem they want solved and how much it is costing them, then show how you're building your product to solve the customer's problem.

When talking with investors, key points of discussion should be:

- Pilots
- Beta tests
- MVP usage
- How the customers are engaging

Once you have a few customers closed, you have enough information to start building the Unit Economics story. Show the cost of acquiring those customers, qualifying them, and then closing them. Finally, show how it's a profitable business.

Next, you'll want to place those customers in a sales funnel to show prospects moving through the funnel. Place upcoming prospects at the top of the funnel to show more are on their way. You now have a repeatable, predictable process.

The secret here is that most investors don't look for big revenue; rather they look for repeatable revenue.

In your investor updates, show additional customers coming into the funnel and moving through it. Highlight that the cost and timeframes are the same, emphasizing it *is* a repeatable process.

YOUR INDUSTRY & COMPETITIVE ADVANTAGE

Know Your Industry

A common mistake made by startups is launching a company in an industry in which the founders know little or nothing about. This mistake tends to happen frequently in the healthcare and financial industries. The size and growth of these markets make it attractive to pursue, but without a deep knowledge of how those industries work, is a recipe for disaster.

The first issue with these 2 industries is regulatory. Both industries are highly regulated and this greatly impacts what a business can and cannot do.

The second issue is the current company landscape - a basic understanding of who does what in the industry is important.

The third issue is your contacts working in the space. Do you know anyone that can help you as a customer, advisor, or employee? This becomes particularly important when you go to sell your product.

Before launching in a new industry, make sure you know the regulatory landscape and how it impacts your startup. Build a network in the industry of partners and other contacts that can help you. Finally, build a core group of people who can help you build or advise your startup.

Demonstrate Your Competitive Advantage

When pitching to investors, you must have a competitive advantage and be able to demonstrate that competitive advantage because it’s not enough to say your product is better or your team will execute faster. You must identify your core competitive advantage and show how it gives you at least a 30% cost reduction or a 30% revenue increase over the traditional methods. This could be through:

- Network effects
- Virality
- Channel access
- Monetization

If you are concerned about protecting your business idea, then focus on the benefits of your competitive advantage such as:

Our software reduces cost by 30% through better algorithms.

You don't have to go into the details; in due diligence, investors can sign NDAs to see the detailed workings of the business.

About TEN Capital Network

TEN Capital Network provides funding as a service to companies anywhere raising venture capital. Its network of over 11,000 accredited investors represents venture capital, angels, family offices, and high networth individuals.

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