Transcript - 2022-03-08 TENFL The Art of Pitching Q&A

Section 1 -- The Art of Pitching

Hall Martin: Today, we're going to spend a few minutes talking about the art of pitching, and talk about some of the key aspects of that, since those raising funding really need to have good pitching skills to communicate well to the investor. And then, those are great skills to take to the rest of your business, recruiting employees, recruiting partners, and managing the client base and so forth. So with that, let's go and kick into it. And so, when pitching your deal to an investor, it helps to know your investor first. I know we all have the standard deck, and we can do the standard presentation, but if you can find out something about the investor, you'll find you can make a much better presentation by customizing it a little bit, especially after you have it memorized and practiced, you can then start to spend more time on that. And what you'll find is that there are different kinds of investors out there that you may be pitching, they're venture capital, they're angels, there's high net worth, and there's others; and the key is they have a little bit of a different careabout when you go and talk to them. In the venture capital, they want a 10x return, if you're not 10x, they're just not interested, it's got to be a very large market, very high growth rate. Angels have a little bit of capital preservation going on there, so they look for initial traction, initial revenue, they want to see some of the risks coming out of the deal. And then high net worth, they also are looking for very good returns, but they're not always that strong on the technology, I find they tend to be, especially the family offices tend to be a little bit risk averse when it comes to tech. And so, you want to think about what the careabouts and concerns are of the investor that you're working with on it.

And then, the next thing you want to do is emphasize return that's appropriate for that investors. Venture capital is 10x, angels are 3 to 5x, and high net worths are 5 to 7x; and that's just been my personal experience with them is what they look for in returns, and you can customize that a little bit in each of your presentations as well. If the investor has invested in a startup before like yours, that's going to be a much more good prospect for you because they're familiar with the space, they maybe have had good luck with it. So again, the more you know about the investor, what they invest in, what they look for, what they've had success with, the better you can customize your presentation for that group. The same thing about the application in the market, those who are familiar with your market space are going to be much more engaged than those who are not; those who are not, need to spend more time educating them, to show them more about how that market works, what's going on there, and so, you may have to be spending a little bit of time bringing them up to speed on it. So the best way to pitch an investor is know something about them, and then adjust your pitch accordingly.

So one of the pitches you need to have is the elevator pitch. And fundamentally, it's the same content as what you had in your deck, but now you're using it in a shorter format; and instead of saying elevator pitch, I learned the other day, one way to say this is have your elevator story, think about telling your story in a short form format in order to get the message across and generate interest. The mistake I see a lot of people make is they decide to talk faster and cram more words into the time, but the better approach is just to choose your words more carefully, instead of giving complete long sentences, you may want to think about keywords and phrases to communicate the different value props that are in your deal. And so, the other thing you want to think about is reducing your pitch down to five or seven words or less, so, for example, if a problem you're solving is diabetes will afflict one out of three people, and the solution is we help cure diabetes, have five and seven word phrases for what you want to communicate throughout the pitch, so you don't have to put a lot of thought and a lot of filler words to get it out there. Next is when you get into financials, those can be hard to present all those numbers in an elevator pitch; the key there is to pick one or two key numbers and just mention that – we're going to be going cash flow positive in 18 months, we're growing 20% month over month growth rate. So pick one or two numbers and bake that into your elevator pitch as well. And then finally, talk about your market – our total available market is $1.2 billion – just put it out there, one number that people can grasp onto and get the sense that this is going to be a good deal. So by crafting short phrases, and using keywords, you can cover the same topics, but with less detail; and then, practice it so it flows smoothly.

So the key here is antidotes tell and numbers sell. What I find is, it's great to use the story form to tell your pitch or talk to the investors about what you're doing, and that's great. What I find helps is to add numbers on top of that. So when you use numbers, talk about what those are, you know, our customer ROI is 3x that of the competitors; our growth rate is 110% quarter over quarter; the numbers start to validate the story that you're telling, and it makes it stronger, it makes it more specific. It also demonstrates your expertise, it shows you know your numbers, it shows you know your market; and wherever you drop a number in, you establish credibility; you'll need a lot of numbers, but key numbers here and there can really help make the investor more interested in your deal, because you're backing it up with some validation itself. I've always been a big believer that at the very early stage, you should be talking about the unit economic of your business model, not just how the absolute dollar volume is growing, but what is the cost of customer acquisition, what is the lifetime value at a unit economic level, it's a good business, because unit economics can come into play even at the very early stage of it, and that can be very compelling to investors. So make sure you don't, you know, if you see the investors' interest waning, start putting some numbers in it and you'll start to see them perking up because there's something that they can grasp on to in your presentation.

So next one is who in your team should pitch – typically, it's the CEO that pitches, and that's because the investor wants to meet the CEO, they want to size them up for their communication skills, the passion for the project, the background, your expertise in the domain, etc. And so, it's okay from time to time to have a CTO or CFO pitch, but, by and large, the CEO should be coming out because the investors are going to take that pitch much more seriously, and that's who's leading the deal, and they need to see that there's a very strong leader at the top of it. The next thing is make sure, as a CEO, you know your numbers very well, and how the business model works; you can't pass it off to a CFO, you need to know your numbers also, and be able to answer all the questions that come up, and they could come up in a variety of different ways, not just about the market or the team, but also about the financials, about the cost structures, about the business model itself. And finally, the CEO should be selling it a little bit, there should be a little bit of salesmanship going on here. We're not just communicating a brief, but we're actually convincing people that this is going to happen, and that's what's key about a pitch is that if you can convince them that what you're saying is going to happen with or without the investor, you'll find the investor is far more interested in this deal, than if it depends solely upon the investor to make it successful, and that's what you have to do is say we're at point A today, and in three years, we'll be at point B, and the investor, if they walk away thinking they're going to do that, they're very far down the path in order to write a check. So make sure that you're selling it a little bit as well.

So next is how to answer the investors' questions, and this is not a very long one, but I find this comes up a lot. And basically, whenever I ask a question, like, how much revenue do you have, I often get the same response, a story. Well, let me tell you about how I came up with this idea, let me tell you – and I had to stop them and say, no, no, how much revenue do you have, that's a number. So listen to the question and answer directly to the point, and if they want to hear more, they want to hear the story, well, then, let's go tell them the story. But if they don't, they may want to go forward. I've been in many a pitch session where the investor literally has 10 minutes to spend with us, they have 20 questions to go through, and there's just not enough time to go through the story on every single question. So think hard about the question that's being posed, answer it directly, and then see where they want to go forward from there. So make sure that we're answering the questions and making sure that we're coming up with what information they need, as opposed to everybody just needs to hear the story.

So oftentimes, especially in the life science, medical device, and some other industries, we'll be listening to a very complex idea, and you're pitching something that is probably outside the wheelhouse of the investor itself, maybe they know a little bit about it, but they probably are not an expert in it. So number one, know who your audience is that you're pitching to – are you pitching to a savvy group of business people who are up on the technology in your space, if you are, that's great, you can go very deep on the technology. If they're not, then you can't go very deep on the technology, and you have to be able to present that information still in a compelling way. And so, the way you do that, if you're not – you don't have an expert group that you're dealing with, and in many angel group cases, that's the case, so you have to choose your core concept, identify the core value proposition you have, and focus on explaining how that works, what the benefits of the technology, and not how the technology works. I find, especially with the life science deals, people have a tendency to have to explain how everything works at a molecular level; and if you're a finance guy, they could get lost in that. And so, instead of talking about all of that, think about having a high level analogy that explains the benefits of it, without having to go too much into the science of it as well. Next, use some examples and contexts, describe the problem that technology solves, and make sure that people understand that this is a large problem, it's an important problem, and here's how we're solving it as well. You can use metaphors and analogies, think about coming up with different ways of explaining it. We had a life science deal come through recently, and they explained their technology as being the traffic cop for the immune system, and they talked about the traffic cop letting some deals go through and other molecules not, and redirecting in different ways; and I thought that was a great way of explaining a very complex technology to a novice audience as well. And finally, use straightforward language, don't use acronyms. I had a guy doing presentation the other day, he kept talking about the BPA, and I had no idea what BPA was; and, in fact, he finished the presentation and never did get to the BPA, so to this day, I don't know what BPA means. But the idea is just talking straightforward language, and avoid the jargon or the tech speak that goes with it, as it can be off putting to the investor.

most startups don't want to tell me their revenue, because it's not very big, and I always have to remind them, most startups don't have big revenue, in fact, almost no one does, or they wouldn't be an early stage startup. But what investors really want is predictable revenue, and what investors are looking for is do you have systems running in your startup, behind the scenes, that are generating leads, closing sales, keeping the customers happy, retaining those customers. And so, what you want to do is, even if those numbers aren't big is show you have those systems running, and over time, the numbers will be big – we are growing, we are getting better, but we have systems in place, and we have predictability. I used to work at a company where we had a three-step process, we would generate leads, we would qualify them, and then we would have an internal salesperson call up to close them. You tell me how much revenue you want at the end of that process, I'll tell you how many calls that internal salesperson had to make, I'd tell you how many leads we had to qualify, and then I could tell you how many leads we had to generate. And it was a machine, we just knew how that worked, and so, it was very clear what we had to do. And so, that's what you want to get to is predictable revenue means you have systems that are running and you know what the conversion rates are and the outputs. I find many early stage startups know those numbers, but they really don't present it that way, they just try to avoid telling me what the real number is as far as revenue, because they're afraid I'm not going to be interested because they only have 30k of MRR. Well, if you have a machine behind that, a system behind that, that is much more scalable and growable, and that's a real value proposition for the investor. So make sure we're talking about that aspect of it, and not just the absolute size of the revenue and what's going on there. You're underselling the deal to a certain extent.

So after the pitch comes the investor discussion, make sure you leave time in the presentation for the discussion. I sometimes see people get 10 minutes and they spend the entire 10 minutes talking. No, let's spend five minutes talking, and let's spend five minutes asking questions of the investors to get feedback and to make sure we're answering what they need to know. If you can research the investors in advance, that's very helpful; and then, after the pitch, make sure, when you go back to the investor, you always have new information to share. You can't just show up and say, I'm still raising funding, and nothing's happened since the last time I'm talking to you, but here I am, again. Because it shows you're not bringing anything new to the table, and it shows nothing new is happening in the deal. And that's really not the message you want to put across, what you want to put across is something always good is happening, let me tell you about the latest deal that's going. So you always need to have updates that are going on, and we like to focus on the core for a sales team product and fundraise, because those are the core things that you're dealing with that really drive the business as well. So let's make sure we have that coming up every time you go back to see an investor. The more updates you have, the more shots on goal you have in going back to him.

Section 2 What gives HNI a heart attack?

Okay, so what kind of things in an answer will give high-net-worth individuals a heart attack? I think the key answer for high net worth is we really haven't put any of our own money into it, and we really can't do anything until we get 500k of revenue or 500k of funding. And what that says is, is that I'm really not putting myself out for this, I'm really not putting my own money up for this, I'm just looking for somebody else to pay me to go do this, so how about you. And that's really not what investors want to hear, they want to hear, this thing is going to happen no matter what. And so, you want to make sure that you're all in, you have passion, and you're doing things to make this thing move forward.

Section 3: Do investors respond to fwup emails?

Next question is: in your experience, if investors do not buy at the presentation, do they do so later in response to emails? And the answer is absolutely yes. And one thing I find is you're presenting a snapshot in time, and what you need to do is, over time, show how you're making progress going forward, and show how you're building a little bit of a relationship. And the story I always tell is I ran three angel groups in Texas back in the 2000s, and what I witnessed in all three of them is entrepreneurs coming in and pitching to my roomful of investors, 90% would pitch, go away, and we would never hear from them again, we have no idea what happened, they just disappeared on us. Well, they got little or no money out of it. 10% though, came back, gave us updates, gave us reminders, built a little bit of a relationship, and on the fourth or fifth update, out came the checkbooks. And that's because, you have to go back and demonstrate the growth story, not just predict the growth story. And that's what so many presentations do, they say in the future, it will be this; but if you can go back and say we're now actually doing this, and we're hitting the milestones, and we're reaching our goals, people start to get a sense there's momentum and traction, well, then they're going to come in. So the follow up is very, very important to this process as well.

Section 4: How important is team?

How important is a team? Well, there's a lot of elements that are important here. You need to have a large market, you need to have a good solid team with complete skills and everything is covered, and they know what they're doing and so forth. So this slide presentation was really not about the basics, because everybody knows the basics, that team is probably the most important thing to put out there. This is really about the things that people may not have thought about for pitching that goes on top of that. So it's important to have a large market, it's important to have a great team, it's important to have a good solution to the problem. And the problem has to be a real pain point, not just a something that vitamin solves. And so, those are the things I think most people know already, but here, hopefully, we've shed light on some new aspects of it as well.

Section 5: How realistic are projections by the startup?

Next question is: oftentimes, I hear a payback period of two to three years, how realistic – let me see if I go back to that. Oftentimes, I hear a payback period of two to three years, how realistic is this, and does this vary per industry. And the answer is, yes, it varies dramatically from one industry to the next, how much it takes to get a payback on it. Now, Enterprise SaaS, you can often hear that two to three years is a good payback period; in fact, you can sometimes go faster if you're in a high growth area, and in life science it's much longer than that. So it just gives a level set as to how fast you're going to be able to generate revenue to cover the cost that goes into it. And so, this is something that is very helpful to investors to know what those different things are and what you're expecting. A lot of the financial presentations in these decks go to showcasing what's in your mind as a startup founder, how fast you think you'll grow, when you think you'd go cash-flow positive, what kind of cash burn are we expecting. And so, investors learn a lot about what you're thinking from that slide as well, so it's important to put some thought into that as well.

Section 6: Investors want a 10x return over what period of time?

Next question is 10x over what period.

Hall Martin: So the VCs have a 10-year life on their fund, but I'd say, most of them are looking for 10x over a five to seven-year period, and so, they're looking for a good size outsize return. And it's a 10-year fund, and you're spending the first three years deploying, and so from the time you start to the time you finish, the clock shifts out there, but they're looking for a five to seven-year window on that.

Section 7: Where do you find good people who know how to pitch?

Speaker 3: Where are you finding the best people for pitching your products, so what's that core group of people?

Hall Martin: Well, as far as people that, you know, startups that are successful at pitching, typically experienced founders who have pitched before, know what the investors are looking for, and so, they're very good at that. Then finding investors who are going back into the operator role, they understand the situation from the investor side, and they're able to communicate how they're meeting the issues that come up for the investor, how will we get an exit, how do we know the team is going to work, how have we validated the market yet. Do we have product market fit? All these questions come up, and if you're already familiar with those, and you're answering those before anybody asked, it shows, you know what you're doing. And so, I find experienced founders and investors who are going back to become operators for a particular deal to be some of the more successful ones as well. Industry expertise helps a lot too – people that really know their industry very well, tend to do very well on the presentations, because they've got an expertise and a command of the domain that can be impressive as well. Now, if that's all you have, that's going to be a problem, because there's plenty of academics, for example, that know the industry well, but they don't know about business or marketing or sales, and that's going to be a problem later.

Section 8: How to close the investment?

what can you advise us on how to actually close a deal?

Hall Martin: I think you have to take the investor through the investment journey they have to go through, and you can't really rush them, you have to walk them through it. And so, when you first pitch, you're checking to see if they're interested. And then, on the next round, you're checking to see if you're gaining interest, it's getting stronger with them when you tell them more about it, and you then usually have to answer their questions, risks are coming up in their mind, and you have to explain to them here's how we mitigated those risks. And so, you want to get the risk out on the table, that's why it's important to listen to the questions to figure out what that is. Once they have that information, at some point, they have to do their due diligence, and so, the way you help with that is you have your documents already put in a due diligence box, ready to go, all the basic documents are here, they're well organized, you can walk your way through it. And one thing I found that some people did, especially with complex deals, is they would write their own due diligence report, they would basically take what's in that box with the patent filings and the entity filings and the financials, and they would write up a report, because sometimes people are not quite sure how they're supposed to do due diligence. So if you write a diligence report out there with many examples on the website, you can then – they'll sit down, they'll read that, and then they will think, well, I've done my diligence, because I read the report, and I understand it, and it seems like it answers all my questions about the risks. So you have to put them through a process where they go through it, but by all means, make it easy. We, in our program, __________ you have a diligence box, or, what they call, a data room with a core five, six, 10 documents in there. So if an investor goes into it, they feel like, at some level, I have done diligence on this, otherwise, they're not going to move forward.

The next thing you want to do is start figuring out how much are they going to invest in, you start with, are you interested, and then, you move to the next level, what kind of range are we thinking about here, and they say, maybe 50 to 100, okay. And then the next meeting is, are we thinking more about 50, or more about 100, okay, we're going to do 75. And so, you're walking them through that process of interest to committed to setting a number to doing diligence to actually writing a check, and the key there is you have to break it down into steps. You can only do one step at a time I find. Otherwise, people feel like they're missing something or they're being rushed, or they're just not sure. So you want to map out all of those steps, and make that easy for them; instead of making them ask for the diligence box, just give it to him; instead of asking for the report, just give it to him and do it. When it comes time to do subscription agreements, DocuSign it, send it over, all they have to do is click, click, click, boom, they signed the documents. That way – I am amazed at how many people send me things where I have to print it out, I have to sign three different places, and I have to look through there to figure out what that is, I have to scan it back in, and then I have to send it back to them; and they're wondering why is this taking so long, well, it's just a lot of steps in today's office world, why did we not just go and put a DocuSign on it where it's just click, click, click, and then make that easy for them. So all they have to do is, basically, approve it, and then, the technology takes care of the rest. And then, the last one is send them the wiring instructions, so they know where to send it, and you can move it over. You can come up with closing dates and those types of things, but I find if you keep them on a standard process that's just very steadily moving forward, you can get to the closing as well through that factor as opposed to hoping they don't have to go do the due diligence, because I find a lot of people stall out when they feel like they're missing steps, and maybe making a mistake is what they're thinking.

Section 9: Are you going back to in-person pitching after the pandemic?

Speaker 4: Prior to the pandemic, all presentations I ever heard of were done in person, kind of, like a stage show; and during the pandemic some have been online. From your presentation, it sounds as though you're getting ready for a return to the former method now that the pandemic is receding, is that right?

Hall Martin: Yes, for example, angel groups were all in person before, they were all online during, and now they're a hybrid mode afterwards. I will say half the people show up to present in person, the other half were Zooming in, primarily because of geography, it's too far to travel for just a half-hour pitch, we'll just Zoom in. However, if you do actually go out to the pitch, you probably have more opportunities to network, build a relationship, and so, there is advantages to going in person, and we'll see, I think, hybrid models going forward in a lot of groups. I will say that a lot of groups are now moved to the first presentation or the first pitch is online, or we drive across town or fly across country, let's just see the pitch, and then, if this is going someplace, well, then somebody's getting on a plane to go somewhere. So up front, I'm seeing that, that's still being the same. Another question, how would I pitch and ask for funding to build the

MVP, what would investors be looking forward to say yes? And so, the MVP is still – there's a lot of validation you can put in there. For example, you could create a landing page and track how many people came to it, you can see how many people converted on it, you see how many people went out to a _________ ecommerce page and try to buy something. MVP is not just one unit, it's many, many tests, and before you actually build a physical product, you want to do a lot of other tests along the way to show this idea works, there's a market there, people will pay money for it, and you have a test for each one of those to show that we're actually doing it. I think one of the best MVPs I ever heard was a guy had a solution that he was selling online, and so he took $5000 of his own money, went out and did a Facebook advertising campaign, generated a certain number of leads, some number of those clothes, and then, he had an average sell of what people actually bought, and he was able to calculate a CAC/LTV rate out of that by saying this cost this much to acquire them, and this many people bought it. And so, his conversion rates already set up before he ever got to actually building the true MVP, and it only cost him 5k of his own money to go do some basic ads. So this is what you want to do before you start building products is to start doing simple tests and validations to show that we're on the right track, we've got a lot of lessons learned here about what's working and what's not, and then, when we get to building an actual product, we're actually starting to get a little bit deeper into it, and with that, we can get deeper feedback from the client as well or the customer.

Section 10: Difference between Proof of Concept and Minimum Viable Product

Speaker 4: wouldn't that be a POC versus the MVP, if you're talking about testing before it's actually launched?

Hall Martin: Well, it could be kind of the same thing, MVP is really just one or two features to see, you know, get out there, engage the market, give feedback, and half of it is to inform your product development, the other half is to convince investors we're figuring this thing out. So it goes to both in that case, but I find that your true MVPs really aren't first versions of your product, because so many times you get out there and find out, we got the wrong package, we got the wrong price, we got the wrong feature set here, and the true first version of the product is, it often comes out to be very different, because after all of the MVPs you've done, you found that we really didn't have the right approach up front. I hear that from more than half the startups coming through. What we originally came out with really didn't work. And some people did very simple MVPs to find that out, some people raised 500k to find that out, and so, you want to be guys figuring it out on the cheap because when I worked at my former company, the first version of whatever we came out with was an MVP, whether we told him that, it was that or not. And then over time, we would upgrade it and make it better, and sometimes there were small changes, and sometimes there were big changes that went into it. So keep the MVPs cheap, and keep them often, do multiple MVPs, and test different aspects of the solution, you know, do we have the right feature set, which is the right feature, do we have the right price, do we have the right conversion rate, do we have the right conversion platform for it, and then start to, with all those lessons learned, you can then start to make a pass at a first version of the product that you go to market with. But all those MVPs, those count with investors, capture the information and show what you've done, because that's very impressive to investors, very few people actually do true cohort analysis, or if they do, they don't tell the investor about it, which is a shame because that's what investors are looking for, I'm looking for validation, I'm looking at you know this from real world experiments, not just what was brainstormed up, because we know how successful that is, sometimes it works, sometimes it doesn't.

Section 11: Should I write out my entire pitch in a script?

Speaker 5: Yeah. Hey, Hall. So I've got a question. So for the pitch, typically, we should write out the whole script or just some main points, and then, just on the fly do the pitch, how should we do it?

Hall Martin: Right. You want to write out the main points. You want to have talking points, not a script, the script will come out stilted, and looks like you're reading something, and the presentation needs to come from the heart a little bit. And so, when you do these presentations, what I always do is look at my slides and say, okay, what's my message on this slide. I pick one, two, no more than three messages that I'm going to say. And then, when I get there, I just give those three messages out. And I'd say in different ways, because sometimes you want to change it for different people, make it relevant to them and so forth. So you don't really want to write out a script, you really want to write out what are the messages I have on each slide that I want to communicate in a 12-slide deck and two-three messages each, you're looking at 24 to 36 messages, and then they need to kind of flow smoothly from one to the next. So you want to practice it from that. So one thing we didn't talk about is how to build a pitch deck, so let's see if anybody has any other questions, I'll close with this. The way you want to build a pitch deck is get your 12-slide template, there should be one slide for every section of the business plan, what's the problem, what's the solution, what's the product, what's the competition, who's the team, what's competitive advantage, what's the business model, what's the financials, what's the investment opportunity, what's the exit – so there's about 12 slides you want to put in there. You can put that into a good template, go through, and on each slide, write out what your message is, what do I want to say on this slide, what do I want to put out there, maybe three points, just five, six-word bullet points on each slide, because you want to think about what am I wanting to say before I actually try to say it. Most people just go out and just start typing in what they think they want to put on the slide, but haven't really thought through the messaging first. After you have all the messages up there, well, then you go back and you convert some of those words into graphs or to charts or to images, some you wordsmith into very nicely worded five, seven-word bullet points. And then, now you have all of your slides put together, then you go back through and start to practice it and see if it flows. And you may have to reorder slides in order to tell the story. I had this problem, I developed a solution, now I wanted to – now, other people are coming to me to buy it, and so, I decided to make a product out of it, and so I found this team and the story should flow a little bit as it goes through, and your history there could be one format for doing the presentation as well. But the first thing on a slide deck is figure out what you want to say, what were your messages, and then figure out how to render it on the screen, and that's the part where you may want to pass it off to a graphic artist, to actually make that look good, get the right glyphs, and the right graphs, and make it look professional. Content has to come from you, but you don't have to be a master graphic artist to make that work at the end. But that's what I do on building a pitch deck is make sure you know what you want to say before you try saying it.