Transcript 2022-04-12 TENFL Crafting a Startup Story Q&A

Segment 1 -- Crafting a Startup Story

Hall Martin: Today, we're going to talk about crafting a startup story, and talk about how to tell your story in a pitch to an investor. My name is Hall Martin, I'm the CEO of TEN Capital, I've been helping startups raise funding for 10 years and over 20 years now with my angel work, and so, glad to share my experience with you guys.

So right now, let's talk about crafting a startup story. Most of you have a pitch deck, you're putting the deck together, and the story form is a great way to tell your story or tell the pitch of your startup; and when you're putting together a startup story, what you want to do is you want to make sure that in the early days of a startup, the product and team aren't fully developed, it's a skeletal outline of what is really there; and so, what you want to do is to communicate the potential of the business to the investor, and if you can articulate a clear vision of the company and where it's going, the investor can see how you can get from here to there, you have the elements of a basic story to tell to the investor itself.

So the thing you want to come up with is the purpose of the startup, what inspired you to launch that startup, what problem instigated the idea for it, and then how did you solve it. Most great stories came out, started with I had a problem, I couldn't find a solution, so I created my own, and now other people want to adopt that solution. And so, you tell that, a little bit of that story about your journey for building and solving the problem itself, and so, that's a great way to kick off a great startup story for your business; and you always want to connect to a universal principle or truth, everyone wants to be treated fairly – something that everybody agrees with is motherhood, it's something that no one debates or is concerned about, and build a story around a theme that is universal. So think about what the basic universal is behind your startup story and call that out as part of it.

And so, in the startup story, you, the founder, are the hero of the story. You are on the journey. You are looking for the moon. You are looking to take this to, you know, you're leading the quest for the solution, and helping bring customers along with you is a great way to convince them that they can be part of this story as well. If you can bring the investors along as well, that's also a great thing, so that investors feel like they're part of the story as opposed to just watching it. And so, what you want to do is make sure that you've got a great CEO that's on a quest for a journey, and you're leading and guiding through the story to the end game.

So the thing you want to come up with is what is your mission, what are you trying to achieve with this, what problem are you trying to solve and who are you trying to help. And so, the thing you want to put up there is that this is a – you're solving a hard problem, not a trivial problem. If it's an easy problem, then everybody's going to be doing it, but if it's hard, it's going to cut the field down, and now you create scarcity, and the investors will look at this as, wow, you are one of the few people that can actually do this, that's a great thing. And then, show how the solution is valuable to the customer, it saves time, it saves money. If you use numbers to tell that story, that's great. And then, talk about the steps you went through to accomplish that mission to get there, to show you travelled a difficult journey and you got there. Again, if it's easy to get there, everyone will do it; if it's hard, fewer people will do it, and you'll be building a much more valuable startup. And then, show how the customer came out with a better solution at the end of that.

Along the way, talk about the obstacles that one faces when you come into it. This shows that you have a moat or a competitive barrier if it takes a fair amount of money or expertise or skill or what have you. Call that out to show what value is in the business. Again, it makes the business more valuable when it's difficult to achieve and not everybody can do it. And then, investors look for persistence, they look for examples of facing challenges and finding a solution through it, so these are great stories to tell as part of your journey.

Along the way, you can talk about the different people that you met, the different things you did, the MVP you built, the team you hired, the partners you recruited, the customers you sold. There's different elements to the story that make the journey more interesting to show how you got to where you are today, it shows you've got experience, it shows you've got knowledge of the marketplace, shows you have expertise in running a business. And so, these are great things to take in, show that you are up against the Goliath, say a big company and you're winning, show how you went from just from the very little to something very valuable, and make sure that you're taking the investor on the journey with you as well.

And so, one of the common mistakes people make when telling the story is they want to tell me exactly how the product works in great detail, when, in some cases, that's interesting, but in most cases, what investors want to know is, what's the benefit of what you built and not exactly how the product works in great detail, because that's if you're a customer. If you're an investor, you just want to know it's a great product, and then, you want to know what value is the customer getting from it. Another mistake I see some people make, and this is with people that are doing something pretty obvious, say, I'm curing diabetes, you know, I've seen people spend half their presentation time trying to convince us that diabetes is a problem. Well, if you just say diabetes is a problem, we believe you, we know that's a problem, you don't have to convince us it's a problem. What you want to do is move over and start focusing on how you're solving it, and so, in some cases, you don't have to spend too much time explaining what's the problem, what you do need to do is talk about where you're going with it. And then finally, you want to come up with your own brand, what is your company's brand. Your brand is your promise to the customer, it's your five-word tagline that explains what you do. And so, you want to be able to start to articulate that in your story, so people start to associate you and you start to build equity into your brand, because branding is one of the hardest things to build; and if you have a great story to tell, make sure that you're coming out with some branding along the way to show where you're positioned in the marketplace and what you're solving for the customer as well, and the story is a great way to tell the background to that brand that you're building in this case.

So those are some of the elements in the story, I find a story is a great form to tell what you're doing for the customer, and these are some of the elements you want to put in there. Usually, telling a story is not hard. What is difficult is telling the right elements of it, otherwise, you end up with just a very long winded story, and what you really want is a story that keeps people's attention, and it illuminates what your business is all about. Well, good, good – got some comments about how fast we are with it. I find that it doesn't take a lot to explain this concept, what we really want to do is answer your questions. So if anybody has a question about startup funding or about creating a story, please go in and type it in there as well. The way you want to build a pitch deck, and I get this question a lot, is most people when they want to start building out their story, they just sit down and they just start typing from once one slide to the next, and I find what is better than just brain dumping onto the slide deck is to go through and think about what you want to say rather than what exactly we're going to write on the slides, think about what are the story elements you want to put. So I would take a blank slide deck with 10-12 slides and go through and put these different elements on it, what was the problem on one slide, what was the original issue that I faced, how did I go about – what was the aha moment that I came up with for solving it, and then what are the steps I took to go solve it, and then what did I end up with, and then how happy was the customer. So if you go through and you put those on each slide, you can then go back and start crafting a story in a little bit more organized point, so that you first think about what you want to say, and then you go and say it.

Segment 2 -- Presenting the problem and solution in a pitchdeck.

Do you have any more thoughts about presenting the problem and the solution? The key is to outline the problem and give just enough detail that people understand what the problem is. If you get too detailed, it can be difficult for the investor to stay with you. And like I say, some people are solving problems that are very obvious like medical conditions, diabetes was an example. I've had people talk about HIV is a problem. Well, all you have to do is say that that's a problem and talk about how many people are affected by it, and now we're all with you, we agree with it. If you have some other problem that people are not familiar with, or they're not used to or not understanding, well, then you have to give a little bit more detail about why that is a problem, and _________ claim that is a big problem. We can't make venture businesses out of very small problems that are trivial, they have to be very large scale problems, they have to be growing problems, and they have to be something that you're going to have a big impact on. So that's what I'm talking about when we talk about talking about the solution is let's not state the obvious, diabetes is a problem, let's talk about how what the solution is that goes after it as well. So I find this, the problem statement is usually not very hard, it's these walking through the solution that is the real magic of it.

Segment 3 -- What is a convincing moat to investors

What is a convincing moat to investors? So what's convincing to the investors is if you have technology that other people don't have, that can be very compelling, and they're looking for that to show up in the numbers. One thing I find is if you have a competitive advantage, what I always ask is show me the numbers, how you can do something 30% cheaper than the competition, or you can generate 30% more revenue than the competition doing the same thing. So if you've got a method or technology that gives you 30% increase or decrease as we talked about, well, then that is very compelling as well. The other one is, if you've got a group of customers signed up, and at some level they're locked in, they have no choice but to use your solution, because you've designed your solution is such a way that you're the only game in town that can provide it; you have a.k.a. a monopoly on a market in a certain way, that is very compelling to investors, because they know you're going to succeed with the business as well. And competitors are one of the challenges you can put in your startup story, you came up against competition, you found a better way to come out with a better solution, and so, competitors can certainly be a part of the startup story, and you always want to talk about how you rank against competitors, or how you're better than the competitors. You don't have to mention every single name, but you do want to recognize that there is competition, and you do want to show how you are better than they are, so I would certainly bring competitors into it as well. So thanks for the comment there Toria, Career Coach, I’m thinking about how to get my pitch together. I hear all the time focused on the solution, but hadn't heard it in this way. Yeah, I think it's a good thing to consider as well.

Segment 4 -- Raising funding during the MVP stage

Next question is we are still in the very early stage, we're building the product as of now hoping the MVP would be ready in a few months, how do I go about pursuing the investors in an effective way instead of sending thousands of emails to anyone and everyone, just a high level idea would help. So one technique you can use at this stage when you're not ready for raising funding is you go to your network, you go to people that you know, and instead of trying to sell everybody through email, go to, say, 20 to 50 people that you know, and say, I have this solution that I'm working on right now, give them a little bit of detail, and then say, I’m not raising money now but in six months I will be, can I keep you informed of my progress. And I say that because every month from here on, you now have permission from them to go give them a short update once a month, just a few lines and a few bullet points about how you're progressing, and at the end of six months, they will be educated about your deal, and when you are ready for raising funding, you can go back to those 20 to 50 people and say, I’m now ready for raising funding, I have my MVP. And what you've done is you've used that time to educate the investor about your deal, versus waiting six months, and then when the MVP is ready, now you have the first conversation, and now you're starting the education process, you use that six-month window for when you're building the MVP to prepare the market, get them prepped on what you're doing, who you are, build a little bit of relationship and make use of that time, and whenever you say to an investor I'm raising money, what you're saying is I'm ready for you to do some work on my deal. You have to due diligence it, you have to figure it out, you have to negotiate the terms and put money in. If you go to them and say, I’m not raising money now, but I will be, then it's more of an opportunity, they almost always say yes to that question that you can keep them informed because they want to be in the in line to see the solution when it comes out, because it sounds interesting, but they really don't have to do anything today. And if there's nothing they have to do today, then usually that's an easy ask, you get an easy yes out of that. So that's just what I would do is start preparing your market, just like you're preparing your product, so when the product is ready, the market is ready. In this case, the investor is ready to consider an investment because you've educated them on it. It takes seven touches to close a sale, so it takes seven touches to close an investor, and we might as well get after making those touches sooner rather than later.

Segment 5 -- Raising a small amount of funding to finish software development

Next question is I’m closing in on 2.7 million in potential investments from two angel investors, problem is I had to let my full stack developer go as he missed three major deadlines and became a liability more than an asset, and how do I go about getting a small investment from said investors and the rest of the SAFE note later. So the answer here is what you do is figure out what is the minimum amount of money you need to get from here to there. In the early stages of startups, you're thinking minimum, not maximum; minimum is 500k, 250, 750, something like that. You're building a minimum product. You're working with a minimum team. So think about minimum as you go through this part of the process. Open up a SAFE note, and go start collecting checks from people that just want to be in the deal, doesn't matter if it's now or later to them, they just want to be in the deal, here's the money. And you can pick up some money from the group to get the business to the next level, and then later, you can raise the majority of the money at what may down the road be a higher valuation, so you're giving up less equity. So up front, think about what can I do for 500k, set a budget and a time limit for what you want to build and then go do that. Many people fall into what I call the vision trap. The vision trap is I envision a product, it's the be all and end all product that I want, and the mistake they make is, and I have to have that on day one. Well, most big vision products aren't available on day one, what you need to do is build up to the big vision, which in many cases take many months, if not several years to get to that fully realized vision. And so, you want to stair step your way up from small start to a bigger to a growing path to the final vision itself. So if you're raising $2.7 million for the first product, I would say, take 500-750, something like that, see what you can build to get you into the market, and then chart a path to go up that curve. As you're making progress, you'll find it easy to raise follow-on funding, as you go through with it.

Segment 6 -- Raising funding in Austin.

So next question is: is a SAFE note the way that many new companies are starting with Austin Texas Tech space, what is your opinion on how to share the story of the projected financials during the pitch? Or you're asking us to focus a bit more on properly telling the basic story of the opportunity _________ journey that is the problem, solution team timing vision for the company to find a timeline needed. I do believe that you should have the basic slides that come into pitch deck such as what is the problem, what is the solution, what is the product itself that you're building, and then talk about not only what is your business model, what is your target market size, what is your competitive advantage, who is the team that's going to take this, and then the financial slide and then the investment amount and the use of funds and the exit. And the ideas you can – you need all of those slides to cover the points that the investor wants to see and hear about, but you use the story form in order to tell it. The story form can be a little bit more engaging, it can keep their attention, it's not as dry, and you can put a little bit of drama and energy into it as well. So I agree you do need all of the core slides that talk about the business for the investor to make an interested discussion about it.

Segment 7 -- Determining if a startup is worth investing in

So next question is: how do you determine what is a good startup to invest in? So if you're looking for a venture level startup, you want to think about several things here. Number one, start with what you want to invest in, what do you believe in, what do you want to support. There's a saying among angel investors that they want to do a little good, have a little fun, and make a little money. When I look at my investments, what I found is the most successful ones check all three boxes; they did a little good in that they were providing a useful product for people to use; people had a lot of fun because they were working with people they really liked to work with, and they made money. And so, it wasn't just money, it was those other two things. And so, you want to start thinking about what is a little bit of good to you, what would be a little bit of fun for you, as well as what would be a little bit of money, and start thinking about what is called your investment thesis, what kind of deals should I focus on; and you want to start writing that down, I'm going to look for deals that can do these things, or meet these requirements, and then, start looking for deals that fit that. And what you'll find is that's a great way to start to come through the many, many deals that are out there. There's so many deals you don't have time to look at them all, so if you have a little bit of a criteria front that really helps you sort through to the ones that are going to be the most valuable to you. Second is, you want to allocate some funding for it, how much money can you put into it. In most cases, it's no more than 3% of your discretionary investment funds, so set aside some amount of money for that, and then next, try to figure out how do I get into at least 10 deals with this money, if I can take the money divided by 10, how would I invest it, is that online, is that in person, is that in a fund, is that in a network, start looking around for groups that can help you find the deals that you're looking for, and can help you get into the investments that you want to be into. I mention 10 because that's the number of people you need to get diversification on it, so those are some of the key things, start with an investment thesis, allocate money, look for groups that can help you get into 10 deals and provide the deal flow and the diligence to support what you're trying to do. And there's many, many, many choices out there now, there are funds, there are angel groups or syndicate platforms, there's online tools, there's so many more choices now than there was even 10 years ago. All you have to do is start looking and you'll start to find a network and a group of people that is focused on the area you're interested in, and those are the people you want to hang out with.

Segment 8 -- What to look for in a venture investment?

We had one more question come in: How do you determine what is a good startup to invest in? So are there any particular KPIs you look for? So when I look for a startup, the thing I'm looking for is does it have the venture metrics that I'm interested in, is it a platform based business, does it have recurring revenue, is it growing fast. High growth in the venture world is at least 50% year over year, somewhat more than that; growing 10% year over year is really not at venture level in this case. Is it a large target market? Can we grow to be a very large size on it? And finally, is it scalable? Are you putting something together that we can actually scale up with relative ease without too much cost? If it's a service based business where you're physically doing service, that's hard to scale. If it's online, if it's in the SaaS recurring revenue model, that's going to be a lot easier to scale. So I'm looking for the venture metrics that come in the deal, and put that out there. And so, for KPIs, you're basically looking for ARR, annual recurring revenue; you're looking for CAC/LTV ratios, cost of customer acquisition to lifetime value; you're looking for, is it a platform based business, and you're looking for things like how big is the market that I'm in, size of market is a good KPI as well.

Segment 9 -- How to set valuation for a pre-revenue startup

Let's go to the next question. If you're pre-revenue, how do you come up with a valuation? So there's about a dozen different tools you can use for calculating valuation, and people do that, because they're basically trying to find the one that puts their business in the best light. If you want to use those as fine, there's the Chicago method, the venture capital method and so forth. Traditional valuation like discounted cash flows don't work very well, because in most cases, there's no revenue to calculate. And so, what I do is I use the rule of four, and the rule of four basically says for pre-money valuation what you want to do is give yourself $1 million dollars for each of four things in the business: sales, team, product and intellectual property. So if I've got sales running all, everything is fully established, everything is working, sales are really working fine, give myself a million dollars; if I'm getting a few sales here and there, but it's not a fully functioning machine – well, maybe I give myself $500,000. Team, if I have everybody hired on the C-level team, a million dollars. If I have half the team hired, 500,000. Product, if the product is fully featured in the market, shipping, working where I want it, a million dollars. If on the other hand, the product is in beta and it kind of works, but it kind of doesn't, let's give myself 300,000 for it. Intellectual property, if I have all my patents filed and awarded, give myself a million dollars. If I have three provisional patents filed, but nothing awarded, well, then maybe I should just give myself 250 for that. And then, what you do is go back and add up what you got for each of those four elements, and that's your pre-money valuation. In the end, what you'll find with valuation is it's not so much a formula as it is in negotiation. Whatever number you put out, the investor is going to push back and say, how did you arrive at that. The appropriate answer is to articulate the values that you use in the rule of four to say, well, I've got half the team, I've got provisionals filed, I've got – and you start to list out the things that are in the business today, not tomorrow, but today. And the value of that is that you can then start to make claim that there's more in the business than you think there is, and I just want value for what's in the business today itself. The incorrect answer is to say, well, I calculated what I think I want to own at the end of this process, and therefore I must be worth X, because this will not fly with investors. So think about articulating the values and use the rule of four to start thinking through what that might be.

Segment 10 -- How does crowdfunding work

Can you discuss your plans for crowdfunding more – I've identified a large problem for US employers and one potential solution for a venture that would fit for an app developed and financed by a crowdfunding deal, well, we see a lot of our companies going on from angel raises and VC raises to doing crowdfunding raises, _________ another group, had to put on a platform, I can put it on my own website, but I do have to do a little bit of regulatory filing of Form C, and then I can raise money from anybody. And if your deal is consumer facing, and it can be understood very easily, then it could be a good fit for crowdfunding. With deals that you're positioning to angels, you're usually talking about a lot of the business elements, it's a great business model, it's recurring revenue; but with crowdfunding, you're talking about the benefit of the product, the use of the product, and how many people the product helps. And this resonates a lot more in the crowdfunding space, where the average investment from most investors in crowdfunding is $500, in some cases it's 750 or 1000, but mostly, it's very little. So you can see that it's really not a big investment, it's more transactional, and people put it in a little bit more on impulse than they do extra careful thought, writing 100k check, you put a lot of thought; you write a 500 – put $500 on a credit card into a deal, you're probably putting a lot less thought into it. So we're helping companies raise money from crowdfunding campaigns through email, and through social media marketing, and sometimes find that you can open it up and you get a much bigger group of people. The other thing you can do is run a crowdfunding campaign on your own website, and you can generate customers as well as investors by doing that. So we recommend looking at crowdfunding because we see a lot of people doing it.

Segment 11 -- Can you patent a web platform?

Next question is: can you patent a web platform? I believe you can. I believe you can put patents around a web platform. You have to make claims that it is novel and unique, and that that would be the challenge is what is novel and unique about yours. We see a lot of interest in blockchain, Web 3, DeFi, and those type of new technologies coming up, so I think there's a green space there, white space there to go out and innovate in the Web 3, blockchain world, because there's a lot of new technologies and new capabilities coming up with tokens and composability that you can find some very interesting opportunities to get involved with.