Justin Izzo of Dropbox DocSend

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity and many other investors for early stage and growth companies. I hope you enjoy this episode. Investor Connect is a 501 C three nonprofit dedicated to the education of investors and startups for fundraising. Please consider donating $100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website. Hello, this is Hall Martin with Investor Connect. Today we're here with Justin Izzo, lead data and trends analyst of Dropbox DocSend. DocSend enables companies to share business critical documents with ease and get real time actionable feedback. Justin, thank you for joining us.

Speaker2: [00:00:59] Glad to be here. All right.

Speaker1: [00:01:01] So where are you calling from today?

Speaker2: [00:01:03] I'm in Boston. Great. So tell us more about your background. What did you do before this? I was not in tech at all, actually. I was a professor at Brown for a number of years, working between the social sciences, political theory, the humanities, before I moved to a research based role in tech, sort of looking to put my skills that analyzing large data sets and really minute details i nto conversation with my ability to educate folks on in this case, how to prepare pitch decks and fundraise. So it's sort of bringing my background to bear on an entirely new world. And it's been a great ride so far. It's been a few years now and I've loved it. Well, great. Well, let's talk more about your recent.

Speaker1: [00:01:46] Report on fundraising. What can you tell us about how you came to put that together?

Speaker2: [00:01:52] Well, our research at Docsend is based on one hand on a fundraising survey that we send out to founders at all stages. But our recent report is on seed stage, and we had over 300 respondents for the report, and we match those respondents with pitch deck data from our platform. So when founders take our survey, they can opt in to share a send link to their pitch deck with us. And then that allows us to

see how investors looked at those decks. And we can then map that behavior onto whether they succeeded at their raise, whether they failed and what their team demographics looked like, things like that. And so it's always it's all down to founders who generously share information and decks with us and a special shout out to founders who didn't manage to raise successfully and still shared with us because this helps us prepare the next round of founders, next generation of founders to learn from their experiences. Well, great. Well, let's dive into.

Speaker1: [00:02:48] Some of the findings that came from the research.

Speaker2: [00:02:50] And let's start with the.

Speaker1: [00:02:52] How successful and unsuccessful pitch decks differ in early stage funding rounds. What can you tell us about that?

Speaker2: [00:02:59] Yeah, it's interesting. So at the seed stage, we saw that shorter decks did a lot better. For a while I hadn't seen the average deck length change too much, but this year at the seed stage, the average successful deck length fell by 20% from about 19 ish pages down to 15. And I was surprised to see it. But the more I thought about it, the less surprised I actually was, because we've seen investors spend a lot less time on pitch decks from all stages through 2022. And so as that's happening, founders have responded in kind by creating tighter, shorter pitch decks that get their thinking across in a way that requires less work from investors. And all that means is a sort of shorter deck viewing experience for for investors before deciding on a meeting. Another key differentiator is successful seed decks really foregrounded their team slide, which kind of makes sense if you think about it. You know, investors are often in, especially in these early stages, leaning in on individuals as much as in a business idea, right? However, unsuccessful seed companies tend to hide their teams like for the back of the deck. And that seems to have been, at least in our data, not what investors really wanted to see. The companies that managed to raise really foregrounded who they were and their team story right alongside their product in their business model.

Speaker1: [00:04:21] Do you think by putting the team slide at the end, the founder was basically saying, I don't really have much of a team. We'll just tack it on at the end and maybe that came through. Or do you think there's some other reason for it?

Speaker2: [00:04:32] That could have been it. But, you know, I also find that founders flounder when it comes to these team slides. Often they're too long, they're too wordy, They can include too many individuals rather than just the four founding members, or they don't present a coherent enough story about why this team at this moment is the right group of folks to solve a particular business challenge. And what I've seen is that the teams or the teams that do this really well are the ones who integrate their team section really fully into the story arc of the deck rather than just tacking it on at the end. Here's our business problem. Here's our solution. Oh, by the way, here's a set of individuals who can solve this. The teams that do this really well are the ones who really weave a portrait of who the who the company really is, who this core group of founders really is into the narrative of the deck as a whole. And that's a really smart way to go about it. I've seen. Right.

Speaker1: [00:05:25] Well, in addition to the team slide, what else goes into a successful venture? Back raise?

Speaker2: [00:05:30] These days, it's brevity, brevity, brevity, brevity. I tell this to founders all the time. They put so much effort into these pitch decks and they don't often realize that investors I read these metrics every week and investors are spending under two and one half minutes on a deck these days across all stages. And that means you have less time than ever to communicate to investors that you can think deeply about your business and its challenges, but also communicate really succinctly and directly about those challenges. And that's a hard balance to strike and that invest our founders, you can do this really well, are the ones who stand the best chance of getting those meetings and showing investors that they can really catch their attention and not require them to work too hard to have to do the kind of analytical thinking they need to do when deciding on taking meeting with the funder in the first place. So it really is creating a tight narrative for you about your company leaving in a good team section and doing so in a way that is both compelling and really succinct at the same time. Great.

Speaker1: [00:06:33] Well, can you break down the VC behavior on a slide by slide basis through the deck? What are they focusing on and what are they not? I guess we have to have fewer slides because they have to get through it more quickly. But how do you see the slide by slide going.

Speaker2: [00:06:47] Slide by slide. It's often the case that decks look fairly similar. Companies often start with a company purpose section, and interestingly, this section is really risen in importance over the past couple of years. At the Pre-seed stage, for example, this went from being the least viewed section in terms of time spent to the third most this year. And I think it's investors looking for a quick thesis fit before moving on to the rest of the deck. In an age when they're being bombarded with more decks than ever and a little more hesitant than they might have been a year ago to go through decks. But companies tend to be pretty tight these days, whether they're successful or not in creating this interesting nucleus at the at the start of their deck, where you have a purpose, a problem and a solution slide that sort of more or less clearly defines why your company exists, what the problem is, and what the specific solution that you're offering is. What comes next is where things get a bit messier. So successful decks tend to include market size and product sections up front to show that they've sort of have thought about what the market looks like and have some kind of narrative. Imitation of what a product looks like. These don't have to be as a sophisticated as founders often think They have to be, from what I've seen. But it does have to show some kind of thoroughgoing sense of where the product is going and where it is right now.

Speaker2: [00:08:11] And like I said, successful companies here tend to include a team slide toward the beginning or right at the heart of the deck, whereas unsuccessful companies tend to tend to be a bit shyer about their team and bury it toward the back. Interestingly, successful decks tend to put the business model section toward the end, and investors will often reward these business model sections that are later in the deck with a bit extra scrutiny. Now that can change by the rounds, for example. So at the at the seed stage, investors lean in a little bit more on business model for decks that don't make the cut and don't get funding. So this can be highly contextual is what I'm saying. At the Pre-seed stage, less scrutiny can actually be a good thing. It means you've done your homework, shown the investors that you have a business model. It's clear, memorable and concise, and investors tend to move on. If things get murky, less clear. If investors tend to be asking themselves a lot of questions when looking at the business model section, they're spending more time. And as I've seen more time among these decks tends to correlate with less successful outcomes, which is why I often advise founders, and this is anecdotally what I've heard from investors as well, if they're

having to work too hard to understand what a business model is and does, that doesn't leave the best impression. Right. Well.

Speaker1: [00:09:36] Example, there is more time on the traction section and often leads to an unsuccessful outcome. And I was wondering about that. But I guess maybe the explanation is if they're spending a lot of time trying to figure it out, then that probably is this traction slide is more confusing them than it is helping them, because I've hear a lot of startups use very unusual metrics around traction, not revenue, but some other thing. And then we're trying to calculate what that might be in revenue. And so is that the case there?

Speaker2: [00:10:05] Yes, It's often the case that founders endeavor in a good faith effort to show that they've got something to their business idea, will get creative. But there's a balance just right here, right? There's a fine line where the creative becomes the convoluted, and that's when investors don't really want to see. And I think you're right there. It's a question of how you can create metrics that show meaningful traction for your business, but doing so in a way that can be easily understood and not just by a specialist investor in your niche field, but by a generalist investor or even by your buddies, your peers. People don't want to have to work too hard to understand what you're doing because that extra work means a bit less faith in the metrics behind your progress.

Speaker1: [00:10:53] Well, see, like there's a lot of way going on that company purpose slide. The more memorable it is, the better you're going to do. Why do you think that is? You think investors are just looking for a match to their investment thesis, or do you think it's something else?

Speaker2: [00:11:07] It's interesting. As the market has grown tighter for founders, we've seen throughout the year that investors have, if not pulled back, at least have held steady and haven't really increased their engagement with pitch pitch decks, whereas founders have sent out have sent up more and more pitch decks on average as the years gone on. And that means it's a tighter market out there for founders. But it also means that investors get to pick and choose which decks they really lean in on and read all the way through. And the company purpose section tends to be the up front number one slide. It's often goes hand in hand with contact info and company logo,

things like that. But it's often 1 to 2 sentences about why a company exists in the first place and in a tighter market where investors are much more cautious than they were 18 months ago. They want to know that there's a real reason behind this company rather than just a slogan, a logo and a quirkily interesting business idea. Is there something compelling that makes me want to read on? By the same token, more competition among founders for VC attention can also mean I hinted at this that investors have to be quick when they pick and choose whether to read through A versus DEC B and if a company purpose section suggests a thesis fit from the get go. Well, if I'm an investor, that's a much more attractive use of my time than a company purpose section that may or may not fit, but seems to be tangential to my to my core interests as an investor. I'm going to choose the company purpose section that's a bit more enticing and a bit more central to what I want to do as a VC. I'm great.

Speaker1: [00:12:45] So what's the number of pitch decks that founders are sending out? You've talked about there's more and more of those coming out. How many do you see out there?

Speaker2: [00:12:52] We're seeing the average founder send out about ten per week, which it's interesting, as the market is growing tighter for founders vis a vis investor attention, founder activity has been high all year, certainly in line with 2021 levels. And on Dawson's platform, 2021 was a very, very active year for both founders and investors. So ten pitch decks a week for founders is pretty active. Investors these days are going through about 24 to 25 pitch decks a week, which is I always like to remind people of this. The market's gotten tighter and investors have pulled back a bit. This is not new information for folks, but relative to pre-COVID times, investors are still pretty active. They just aren't as active as they were last year, especially this time last year. So we're in early December last year, for example, on Dachshunds platform, we were seeing a record high of VC pitch deck interactions on a weekly basis. It hit up until the forties per week. It was so high that I thought there was a glitch in our in our data. There wasn't, but it was that high. And now we're seeing investors really pull back from a year over year perspective on the number of decks that are looking through. So relative to last year, sure, we're seeing a drop off, but in a longer view, investors are still pretty active. This is still a fairly healthy climate to be fundraising, but there is more competition out there than there was a year, 18 months ago. Great.

Speaker1: [00:14:25] Well, how long are investors spending reading those decks? Is it going up or going down or staying the same? But in time units, how long do you think they're actually spending on it now?

Speaker2: [00:14:35] Yeah, so it's gone steadily downward all year. We began the year at around two and one half, maybe 2 minutes and 40 seconds per deck, which isn't much to begin with. But now it's been hovering around 2 minutes and 25 seconds of deck, so it's gone down as founder activity has gone up over the years. So as more founders than male pitch decks, we're seeing investors spending less and less time on the decks that they're choosing to go through, which kind of makes sense. If you look at this as as an investor friendly market in the sense that there are many more founders sending out pitch decks, but investors are being more judicious in terms of the number of decks they're going through on a weekly basis. That means on a deck by deck level, they're also spending a bit less time per deck than they did about a year ago. And that means founders have to be really concise and really choosy with the kinds of information they show to investors. And that means they can't possibly try to answer every single investor question in a pitch deck. But it does mean that they have to be as enticing as possible while presenting as comprehensive a look at their business as they can in 15 to 18 pages, let's say.

Speaker1: [00:15:50] All right. Why? Used to think that investor had to know five things about a deal to really have the basic context. And that was the problem. The solution, the team, the traction and the fundraising. When they had all five, they had enough to know kind of where you were on the curve. And does this start to make sense? But what I'm seeing here is that it's actually even shorter than that. You have the right company purpose and the right traction. You're probably going to be in the category to go forward. If you're not, you're probably not going to be able to go forward. You think that's a fair statement?

Speaker2: [00:16:20] I think it's mostly fair in the sense that when I'm advising founders on these kinds of questions, I don't need to remind them of this, but I do. I tell them that VCs are smart, VCs are analytical folks. They've done this a lot. And what I really mean by that is they know the kinds of markers that they're looking for, and they know how those markers shift on a yearly semi, yearly, even quarterly basis. And so when they see what they need to see in a section or in a deck as a whole, they'll know pretty

quickly when it's time to take a meeting. And in this kind of climate or in this environment, when at the best of markets, investors already know what they're looking for in a very tight market. Investors are making these calls very quickly and they don't need much more time than that to really make a decision on the deck. So investors need to or founders need to be as up front as possible and as easily digestible as possible for investors when they're crafting these decks. So it really is striking a balance in what I call compelling brevity, right? Showing your metrics, showing your purpose very briefly, very memorably, but in so doing, also letting investors know that you've really done your homework on this. And that's a tricky balance for founders to strike. But it is one that founders need to put a lot of time into when creating. Paradoxically, as concise and brief of a deck as possible. Great.

Speaker1: [00:17:44] Well, based on this research, are you planning a follow on report is so what might that focus on?

Speaker2: [00:17:49] Absolutely. So we put out reports annually on pre-seed and seed stage fundraising, and we're hoping to put out later stage fundraising if possible next year. And our next report coming out in late Q1, early to 2023 will be a report across all of early stages of all of preceding seed stage fundraising, focusing on race and gender, and how biases make their way into the pitch deck review process. And what we do, the process remains sort of the same. The analytical lens kind of changes, but we'll take pitch decks from teams that fill out our survey and map their results and investor behavior to team demographics. And we can show where less diverse teams versus more diverse teams have different types of scrutiny, where demographics correlate with different types of fundraising outcomes even and interestingly, how this changes on a yearly basis. So for example, last year you saw in our report that more diverse teams got many more meetings and even in some cases outraised less diverse teams in the wake of hard conversations being had about about equity and equal access and startup fundraising. And that was sort of heartening to see. But now it's another year out from these kinds of conversations happening, and we get to track whether dollars are really following on from often well-meaning investor pledges about taking diversity seriously and taking representativeness seriously in terms of which funders get funded and how funders can access the best VC networks. Right. Well, there's a lot of.

Speaker1: [00:19:25] Talk about impact investing coming up and taking over at some point. Do you see that growing in the market and is that worth the research report by itself?

Speaker2: [00:19:34] It certainly is. I think one of the next steps for Sens research is to think about not just how VCs raise their own funds, which we know something about already, but how VCs deploy their funds, and having both investors and founders comment on trends they see in the market. So it's a question it would be a question of matching of mapping. Interesting quantitative data on what VCs are doing with the funds they raise versus how they're thinking about that. How founders who work with a lot of these VCs are on the receiving end, not just of funds but of advice, introductions, warm intros. It's a question of painting, a holistic picture of what impact investing looks like not only now, but what it can look like going forward. And I think this is something of a next step for us, and it's something that, crucially, we have to track over time. Right. A snapshot is interesting, but it's just one part of a sort of longitudinal look at what impact really means in this space and what it can mean, especially among as macroeconomic trends might make certain headwinds in the private markets. And these are all factors that have to be put into conversation, I think.

Speaker2: [00:20:46] Great. Well, that's fascinating report in the last few minutes that we have here. What else should we cover that we haven't? You know, I think it's important for founders today to really realize that they need to think, think deeply and communicate briefly. I can't say it enough because founders, as much as I love them, always put in way too much in their decks. And I'd like to break this down really simply for them that they should cut out 20 to 30% of the text in their slides and see what that looks like. You can always add in more later. But this is something that investors often know and they often tell me about. The founders don't necessarily let sink in in the same way. And so I let founders know this all the time, and I love reiterating it. Be brief and be deep and figure out how to strike that balance. It's been a core piece of advice I've given out throughout 2022, and I don't see it changing in the near term, but I really like talking about it.

Speaker1: [00:21:39] Well, that's great. So how best for listeners to get back in touch with you?

Speaker2: [00:21:42] Find me on LinkedIn. Justin So I would love to hear from you.

Speaker1: [00:21:47] Great. We'll include that in the show notes. I want to thank you for joining us today and we hope to have you back for a follow up soon.

Speaker2: [00:21:52] That'd be terrific. It's been great to be here.

Speaker1: [00:21:55] Investor Connect helps Investors Interested in startup Funding. In this podcast series experience, investors share their experience and advice. You can learn more at investor connect dot org. Malte Martin is the director of Investor Connect, which is a 500 1c3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.