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"Great Association with Quality Deal Flow"

How Entrepreneurs can be Successful Presenters to Investors (Part 1 of 3)

[An open letter to all entrepreneurs presenting to Angel Investors]

Dear Entrepreneur. (1)

I would like to introduce myself to you. I am an angel investor.

You may not have met the likes of me. I play several different roles. I am a listener to your presentations, a challenger of your strategy, an investigator conducting due diligence, a negotiator over investment terms, and finally a check writer to fund your growth. Until now, your check writers have been friends and family. I am neither.

I write this open letter because sometime in the near future, we will meet for the first time when you present to Angel Investors. I will be one of many pairs of eyes looking at you. I know what you want from me to be an investor in your company. Often times, however, it is evident that you do not know what I need from you. Thus, I want to help you be a successful presenter.

You will probably have 10 minutes to 'give your pitch', plus another 10 minutes to answer questions. I would like this time to be fruitful for us both, so I have provided you with very specific suggestions of how to most effectively organize and deliver your presentation. Furthermore, I have described the most commonly made mistakes. I hope you will find my suggestions helpful and encouraging since my desire is to give you the tools to be well prepared and confident.

If you follow these guidelines, I estimate that you will be in the top 5% of all presenters. While this does not guarantee an investment in your venture, it does significantly increase the likelihood that many of my colleagues will indicate our strong interest. That is your goal for our first meeting and I wish you great success in achieving that goal.

Sincerely,

Edward P. Harley
Angel Investor
Keiretsu Forum Member

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Your Presentation

Some general, presentation-at-large, dos and don'ts.

- Do challenge yourself to deliver an 'easy-to-understand' story. Could I, your listener, replay to another person the very basics of your venture and how your target customers will benefit from using your product?
- Do infuse passion throughout your delivery. Engage me with your story.
- Do focus on the benefits to customers of acquiring/using your product. Does it simplify? Make-money? Save money? Open new markets?
- Do differentiate your business in some way from the competition market channel, service, technical features, etc.
- Don't give me unclear, irrelevant, or unnecessary information. It is extremely important to your success that you winnow the full amount of information into the particular subset that is required for this presentation. If you are concerned about leaving out 'necessary' information prepare a more detailed slide for the Q&A period in case it comes up.
- Don't try to impress me with a lot of jargon.

Min 0:0 Min 0:30 Connect with me (0 slides)

I'll begin evaluating you before your first word. I am looking at your dress/appearance and posture as a measure of your confidence. During your opening 30 seconds, you should focus on trying to connect with me. Tell me a short story about how you germinated this idea or, give me your 'elevator pitch' that one or two sentence summary of your venture that leaves me wanting more information. Be creative in trying to engage me.

I strongly recommend during this opening that you turn-off the PowerPoint projection. Just talk to me. Look directly at me; I will look directly at you. This is how we connect. Remember, in my mind, more than 1/2 of my measure of this presentation is about you -- the excitement and enthusiasm of your voice coupled with the energy and animation of your face and body to show the conviction of your message.

Perhaps 50% of you make this connection successfully. Sometimes your general communication skills are so inadequate that they distract me from making a connection.

Min 0:30 to Min 2:30 The Customer Situation (1-2 slides)

Having connected with me, I now recommend that you tell me, in the next two-minutes, the current state of your target customer, the seriousness of that current state, the desired future state of that customer, and the benefits to the customer in reaching the future state. This 'chain-of-reasoning' about the customer's situation is particularly critical to me, your investor. You really need to make sure I 'get it'.

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To be more specific:

- Current State - describe the problem your customer has, or the problem they want to avoid, or their lack of opportunity.
- Seriousness of Current State - describe the seriousness of your customer's current state by explaining their consequences of not changing.
- Desired Future State - describe a desired 'future state' for your customer that is more pleasurable (problem solved), more certain (problem avoided) or more fertile (new opportunity potential).
- Benefits to the Customer - tell the benefits (both performance and psychological) that the customer will receive from being in that future state. Because in many instances your venture involves selling to organizations, you need to explain both the general benefits to the overall organization and the specific benefits to various people within the organization.

Less than 30% of you will present the customer's situation successfully. Frequently, you fail to adequately describe the current state or desired future state, or you describe the product benefits rather than benefits the customer will receive by using your product.

Min 2:30 Min 4:30 The Product/Solution (1-2 slides)

In these two-minutes I suggest that you tell me about your product your solution your new whatever. My expectation is that I will hear about a solution that is significantly better for the customer than all their existing choices--- by 'significantly better', I mean 10X better. Admittedly that is a very high bar, but that is my standard.

You must describe the current state of the product's key features and the benefits of those features (as distinguished from the benefits of the customer using the product). You should also give me a product roadmap of anticipated enhancements. Understandably, you will use diagrams to support this information, because most often a demo is impractical, although a short demo is worth a great deal. Indeed, you may have to show a computer screen shot to get your point across. You also may choose to provide a handout or point me to website. Any of that is encouraged, however, during your presentation keep the information simple and at a high level. Tell just enough and not more.

Next you should explain the installation effort, the integration issues, and how will the customer receive ongoing support. Then, tell me about your solution's scalability. With scalability I am interested in two dimensions: your ability to serve the needs of one very large customer and your ability to serve the needs of many smaller customers. Finally, you should briefly explain any core technology, any patents or other defensible Intellectual Property (IP), or any other technical barriers to entry for a potential competitor.

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Over 70% of you will present your solution successfully. The key mistake you make is that you tell too much, confusing me with unimportant detail and technical jargon.

Min 4:30 Min 5:00 The Value Proposition for the Customer (1 slide)

Neil Rackham, in his book *Spin Selling* (2), describes the value equation for a customer as:

Customer Value=(Seriousness of Current State + Benefits of the Desired Future State)
Cost of the Solution.

If the first two factors (Seriousness + Benefits) ‘weigh’ more than the Cost of the Solution, then the customer has a positive value equation. The magnitude of that positive value directly influences the customer’s willingness to pay for and to make the effort to make the change. The greater the magnitude, then the greater is the customer’s desire to ‘just make the purchase’, rather than doing a rigorous evaluation during the sales process.

In this 30 seconds, you should persuade me that those two conditions (Seriousness + Benefits) add up to considerably more than the cost of your solution. A customer quote or testimonial video has a great deal of impact at this moment.

Less than 10% of you will present the value proposition for the customer successfully. Most often you ignore this topic completely.

At this point you are 1/2 way through your presentation. If you have successfully connected with me by clearly describing the customer’s situation, your solution, and the value proposition of the customer, then I am hooked and I will listen to the rest of your presentation as an investor. If not, then for me as an investor, it is probably over. For sure I will still actively listen to the rest of your presentation, but I will listen with the mindset of a curious person rather than with the mindset of a potential investor.

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How Entrepreneurs can be Successful Presenters to Investors (Part 2 of 3)

In the first 5 minutes you needed for me to really 'get it'. Your approach in minutes 5 to 8 should be very different. In these three minutes, you are just 'skimming'. You are not trying to tell all. You are not trying to tell even 50% of all. You don't have enough time we both know that. You have to pick some key points. In making that selection be mindful that you are attempting to get me to invest in your venture and thus I suggest you pick those things that will reinforce the idea that I will make money as an investor.

Min 5:00 Min 6:00 Initial Target Segment: Total Market: Market Category (1 slide)

I recommend that you start this **1:00 minute** section with a **3-5 second pause**. Yes, silence. Then, look clearly at me and give a message similar to this. **"For the past 5 minutes, I have presented how our company has solved an important serious problem for one customer. In the next 3 minutes I am going to present how we are going to grow this into a business with many customers and millions of dollars in annual revenue."** Your pause and transition serve to reconnect with me and prepares me for what is coming.

Above all, I want you to tell me 3 things:

- A description of your initial target market and its dollars
- A description of your total market and its dollars
- The name of your market category

I have intentionally reversed the common order of most market segmentation presentations, starting first with 'Initial Target Segment' and progressing to 'Total Market' and then 'Market Category'. I want you to start with your one customer and tell me that you can grow your business to many customers because there are many customers in the same situation that need your solution. This **'bottom-up' (inductive reasoning) approach is both logical and memorable to me**. It is logical because you are starting from the foundation you have built your one customer. It is memorable because by describing the expansion from one customer to many customers you are describing the growth of your business in the order it would actually happen.

In the next few paragraphs, I going to outline an approach to thinking about your target segment. I hope it will help you tell me your growth story. Market segmentation is an extremely challenging business topic. An excellent book on the subject is called *"The Innovators Solution"* (Note 3). I strongly recommend that you **read it and study it**. In that book, the authors Christensen and Raynor use the phrase 'job-to-be-done' to describe what the customer is trying to do.

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I suggest you present **one slide with a ‘job to be done’ hierarchy for your market**. The bottom of this hierarchy shows the ‘job-to-be-done’ by your existing customer and other like customers. This is your initial target segment. The middle of the hierarchy contains more generalized ‘job-to-be-done’ descriptions, requiring that you do something different with your product, distribution channel, marketing message, pricing, etc. to successfully solve those ‘jobs-to-be-done’. Collectively, those segments are your ‘Total Market’. Finally, the pinnacle of the hierarchy is the very broad ‘job-to-be-done’ which is your Market Category.

I realize that the thinking behind that one ‘job-to-be-done’ hierarchical slide is very difficult. Try this thinking process approach:

- **Initial Target Segment** Start with your existing customer and their ‘job-to-be-done’. Name that segment and define a few of its key attributes. Estimate how many other customers have the same ‘job-to-be-done’ that need your solution. Estimate the expenditure of these customers on the problem that your solution solves. Support your estimate with data if possible. This is your Initial Target Segment.
- **Total Market** - Generalize from that one ‘job-to-be-done’, horizontally and vertically to a broader principle that includes a similar but not identical ‘job-to-be-done’. With each new ‘job-to-be-done’, ask, “Can we use our same selling approach and our same product with this new group?” If you conclude ‘NO’, then you have identified a new market segment. Name that segment and define its attributes and estimate its dollars. Continue to generalize until you decide you are outside the scope of what your company can be in the next 3-5 years or where your product has, or will have, a solution. Add together the dollars of the various segments. Support your total estimate with data if possible. This is your total market. If you want numbers, I am looking for a total market or (TAM - ‘Total Available Market’) of at least \$500m annually, and a market growth rate that is positive.
- **Market Category**- Continue this generalization upward, to identify the very general ‘job-to-be-done’ business you are in. This is your ‘Market Category’. You are joining that market category and your marketing and sales effort will be to position your company within that market category in the customer’s mind (Note 4).

Correctly determining a company’s initial target segments is complex. Building segments into a total market is even more complex. Many executives spend countless hours on this subject every year, with vague results. My investor friends’ and I have empathy as we have engaged in countless (and fruitless) marketing segmentation discussions ourselves. Persuade me you have successfully identified your initial target segment, your total market, and your market category and you have a powerful, complete and memorable story.

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My estimate is that only 5% of you present this market information successfully. Most of you use the **‘top-down’ (deductive reasoning) approach**, starting from the total market and working downward toward your one customer(s). You often do not adequately describe the total market, using only a cryptic heading. You often do not segment the market, leaving the impression this is ‘one whole market segment’ where one sales approach and one product will satisfy all. Or even when you do segment the market, you oftentimes segment by the customer’s attributes or your product attributes, rather than by the customer’s ‘job-to-be-done’. Come Q&A time, my colleagues and I poke and prod at this milieu and its many disconnects. Almost always your answers don’t measure up.

Min 6:00 Min 6:30 Competitive Similarity: Strengths Declaration: Competitive Differentiation

I recommend you start this section with another pause of 3-5 seconds and another transition message something like this **“For the rest of the discussion, I am only going to present information on our initial target market of [name your target market]”**.

In these 30 seconds, I want you to discuss who is your competition and how will you successfully compete against them in your target market. I have limited your time on this topic, since it always comes up in the Q&A. Thus, I suggest you present the basics and have some back-up information prepared for my eventual questions.

A common way to present competition is to pinpoint all the competitive companies within a two-dimension diagram. This works fine, but then I suggest you resist immediately discussing the companies themselves. What I am really interested in is the constructs of the diagram. I want you to explain to me why you choose to frame the competitive discussion on these axes. Specifically, I am looking for you to:

1. **Declare your company’s strength** Before you can create the competitive diagram you must declare your company’s strength because one of the axes of the diagram should measure your company strength against the competition. Tell me what is it that you plan to do really well - product features, service, channel, customer training, ordering ease, technology, etc. I will listen very carefully to this with three perspectives. First, is your initial competitive advantage in a product attribute or in a non-product attribute? Second, is this a strength that your customer’s will value? Third, is it achievable?
2. **Describe the two axes** Explain your company’s strength against the competition and why you chose the other axis.
3. Point out important situations regarding any competitor within the diagram. If one competitor has something unique; give me a sentence on that uniqueness.

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4. **Point out important changes over time** Next to the important competitors, I would like for you to indicate using a direction arrow how, over time, those competitors will change. I call this a ‘competitive differentiation-roadmap’. I am always impressed when you do this because this indicates strong strategic thinking.

Don’t be timid to declare that you have ‘no competition’, however, you should then include in your financials the considerable cost for the evangelism to create a new sub category or even the more costly challenge to create a new category. I reject the slogan that “if there is no competition, then there is no market”. **I am prepared to invest in new sub categories**, which is something that I frequently see. **I am also prepared to invest in new categories**, which is something that I rarely see.

My estimate is that 30% of you deliver this section successfully. A majority of the time you do not state the strength of your venture or show how the competitive differentiation changes over time. Now and again, when you state that the venture is without competition, you do not include in your financials the considerable cost for the evangelism, leaving an impression of your overall marketing naiveté.

Min 6:30 Min 6:50 Marketing Strategy (0-1slide)

In these **20 seconds**, you need to tell me your top one or two marketing strategies. Yes, just one or two. Give me some rationale as to why you chose these and then move to the next section.

I am listening for information such as your launch plans or go-to-market strategy, branding and promotion, trade show focus, public relations and press emphasis, and how central is your web page to the overall marketing program.

Nearly 100% of you say something about marketing, unfortunately, almost all of you also say too much. You put up a slide with a long list of strategies, giving me little indication of priorities.

Min 6:50 Min 7:10 Sales Strategy: (0-1 slide)

In these **20 seconds**, you need to tell me your sales strategy and/or your distribution approach. Be clear here. If you will deploy a direct sales force, say so. If you will use a channel strategy, say that.

Next, give me a few words on your sales cycle to sell to your existing customer and what you project that sales cycle to be going forward. Also indicate your unit pricing and how that will change over time.

Only 50% of you will present this sales strategy section successfully. A few simply do

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not cover what is the sales strategy, leaving a seriously bad impression that you are more interested in creating the product than in selling the product.

Min 7:10 to 7:30 Product Strategy: (0-1 slide)

In these **20 seconds**, I want you to tell me about your product strategy. What I am looking for is your product roadmap. I know that an initial product lacks a comprehensive set of features and capabilities. Please give me a few words about future versions, focusing on if these new versions will allow you to provide a solution for additional target segments.

Also if you have patents, this is the place to mention them. Be prepared to talk about patents in the Q&A.

Over 80% of you will present this product strategy successfully. A few skip the section altogether.

Min 7:30 Min 8:00 Management and Board of Directors (1 slide)

A qualified leader and a solid management team is a key reason for me to invest in your venture. In your opening remarks, you should have briefly alluded to your own background to keep the skeptics attention (Note 5). Assuming you have given a clear and persuasive presentation to this point, I already have some evidence of your own experience, expertise, perspicacity, ingenuity, insight and whatever other characteristics you have tried to convey. Now I desire to know more about the management's qualifications.

In these **30 seconds**, you should further establish your own credibility and the credibility of the management team. I want another sentence or two on your capabilities. I expect you to present a slide of the names of the key executives, their experience and their expertise. I also want to know who is on your Board of Directors.

But the point is not just to give me a **line-up of the players**. The question I am mentally asking and you should answer in a sentence or two is “Why do you believe that this **team is qualified** to build this enterprise?” “Why will this team be a **winning team, i.e. the right team at the right time to do the right job?**”

Perhaps only 10% of you will present these management qualifications successfully. Most of the time you just give the line-up of players. Frequently, you ‘pad’ the list by giving names of non-employees who are working only a few hours a week, which is uncovered during Q&A when I ask you to reconcile your apparent employee costs with your current ‘burn rate’.

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At this point you have completed 8 minutes of your 10-minute presentation. Assuming you have successfully given me just enough information, then I should now understand how you plan to build a multi-million dollar revenue company. I eagerly wait the final two minutes where you will give me your financials and what resources money, management, and introductions you need to make this plan a success. Good Job.

How Entrepreneurs can be Successful Presenters to Investors (Part 3 of 3)

In the first 5 minutes, it was essential that I really 'got it'. In minutes 5 to 8, you were just 'skimming' over the highlights -- not trying to tell all. In minutes 8-10, your approach should be different again. **Now you are a "closer"**.

Min 8:00 Min 9:00 Financials Current & Projections (1 slide)

I understand that all financial projections are subject to long discussions. You have just 60 seconds to describe those projections, a fraction of the time you spent formulating them and calculating the different simulations. Indeed, I am interested in that work and will go over it in some detail at a later time. For now, I am only interested in either a 3-year or 5-year projection of revenues, gross margins, earnings, and cash flow. Yearly granularity is just fine. You should point out the projected milestones of positive cash flow and positive earnings. Your objective should be to present your financial information in a manner that conveys to me that your business model makes sense. The superior presentation contains one slide with a table or a graph that tells the story.

Over 80% of you present your financial projections successfully. Most mistakes are in form rather than about content presenting the financial spreadsheet in a font size that I cannot read. If you are concerned about not including enough detail of your financial projections, then prepare a second slide in case it comes up during Q&A.

Min 9:00 Min 9:30 Investment Required, Capital Structure, Deal, and Exit Strategy (1 slide)

As an angel investor, my first concern is about any follow-on investments that could affect the value of my initial investment. If the business growth is on or above plan, that follow-on investment will be higher than today's valuation. If the business growth is stalled or slower than expected, then that follow-on investment may 'cram down' my initial investment.

Thus, I strongly recommend that you start this **30 seconds** by telling me how much

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money you think you will need to raise IN TOTAL to reach a positive cash flow. Next, tell me how much money you desire to raise today and how much money you need to raise in the future. Finally, complete the picture by explaining the existing capital structure, who owns what, and if there are any unique terms.

Assuming you are offering an ‘equity deal’, then you will be asking me to make a \$X investment at specified terms for a Y% ownership in your company. To make that calculation, we have to agree on the value of your company. Fairly valuing an early stage company is highly contentious. Even reasonable angel investors disagree. Your objective in this session is to present yourself as a ‘reasonable seller’ by insuring that your valuation of the company is ‘in-the-neighborhood’. We will negotiate the exact valuation and terms over the next few weeks as part of the due diligence process.

I see two methodologies that generally result in ‘in-the-neighborhood’ valuations and leave me believing that you are a ‘reasonable seller’. The common methodology is to use some ‘rule-of-thumb’ ratios— some multiple of last year’s revenue or profits, some multiple of next year’s revenue or profits, or some other ratio—as your justification. The more unusual methodology is to use comparable transactions as your justification but usually there are no direct comparables. With either methodology, you should explain why you have chosen a slightly higher multiple because you think you have the best ‘house in the neighborhood’, or why you have chosen a slightly lower multiple because you have a ‘fixer-upper’. Close this section by describing your exit strategy and the estimated time before a monetizing event will return my investment.

Perhaps 50% of you will present your capital structure successfully. It appears to me that many mistakes are made because you do not want to cover this topic. You are unsure of what to say, so you present no valuation. With no valuation, it is impossible for me to judge the likelihood of our reaching an agreement on investment terms. I am an angel investor and invest in those opportunities where I receive a fair valuation and where that venture grows in size to enable a liquidity event where I convert my investment back to cash. On-the-other- hand, if you go ahead and present a valuation that is ‘out-of-the-neighborhood”, you are presenting yourself as an unrealistic seller. I am generally not interested in dealing with unrealistic sellers. You may feel obliged to set that valuation because of an earlier valuation for a ‘friends and family’ investment that you are trying to ‘maintain’. It is unlikely my motivations for investing are the same as your ‘friends and family’ investors.

Min 9:30 Min 10:00 Recap

It is extremely important that you summarize your presentation. It is most effective if that summary considers my perspective first and foremost. Start your final **30 seconds**, with words such as “ The objective of my coming here is to share information with you about this investment opportunity”. Now without slides, but deep in your gut tell my why this is a good investment for me. I want to hear conviction in your words when you

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say why you believe you have a credible growth story and that the investment risk and opportunity equation is fair and reasonable.

My guess is that only 5% of you will present a persuasive summary successfully. For 1/3 of you, your summary has little persuasiveness because your words are simply a restatement of what you said earlier. For 1/3 of you, your summary is not credible because of your shortcomings in earlier sections. For other 1/3 of you, you do not give any summary at all because of poor time management (or maybe at your choice) a real opportunity lost.

Min 10:00 Min 20:00 Q&A (5-10 slides ready)

Lots of literature is written about successfully answering questions in front of an audience. That literature always suggests two strategies:

1. Anticipate what questions will be asked and prepare your answer to that question. (Have slides ‘in holding’ for complex answers where a visual representation will augment your words -- this is very effective.)
2. Repeat the question after it is asked.

During the 10 minutes when you are answering questions, besides listening closely to your answers, I am watching your body language for any clues about your strengths and any serious weaknesses. Hopefully, during the first 10 minutes, you shined in your prepared remarks. Now, hopefully you will continue to shine when you are ‘thinking on your feet’.

Specifically, here is my suggestion on the style you should use in answering the different types of questions:

- **For the clarifying questions**, you should have alternative ways to explain the same topic. You have just given me considerable information, and I may not understand it all.
- **For the easy questions**, you should give short, crisp answers.
- **For the complex questions**, you should have prepared additional slides in advance that give visual support to your answer.
- **For the ‘poking questions’ that pry away at your baseline strategy, market, projections, etc.** you should not be defensive but don’t be a wimp either. I don’t expect your venture to be perfect. Contrarily, I don’t expect that all of my ‘poking questions’ will be valid and reflect a weak spot in your venture.

My guess is that 50% of you will shine when answering questions. Your mistakes are not really classifiable, it is just a ‘gut feeling’ that my colleagues and I have based upon what you said and how you said it.

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Closing Comments

I hope this open letter walked that fine line between being encouraging and being tough. My desire is that this letter helps you be a more effective, confident presenter.

Starting a new company is difficult. Completing a product is difficult. Selling a first customer is difficult. Building a management team is difficult. Raising money from outside investors is difficult. Those obstacles and more, face every entrepreneur. Presenting your business to investors requires you successfully to tell 7 stories.

'The fundamental business logic story'
'The total available market (TAM) story'
'This is a \$50m to \$100m business story'
'The product can be differentiated story'
'The product/service can be sold story'
'This management team can do it' story'
'This is a good investment for the investor story'

If you can passionately tell me those 7 stories while building a rapport with me where I eventually become an investor, we can jump over obstacles together. In addition to being a source of funds, I am a member of a terrific network of successful colleagues who are willing to assist you in your entrepreneurial effort. Our knowledge is both deep and wide, crossing industries, technologies, markets, and distribution channels. **Thus, I encourage you to make the upfront effort to tell me your story. We can be successful together.**

I thank the Keiretsu Forum membership-at-large, of which I am a member. I have gleaned many of the letter's thoughts from our one-on-one conversations and group discussions. I specifically thank members John King, Phil Chernin, and Ken Taylor, for their insightful editorial comments and wordsmithing.

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