



(how to pitch startups to investors)

BY VENTURE HACKS

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First edition

This is a sample from Pitching Hacks.

You can buy it at <http://venturehacks.com/pitching>.

Yo!



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DISCLAIMER

This book provides information, not legal advice. Use it at your own risk.

Information is not the same as legal advice. Legal advice is the formal application of information to an individual's specific circumstances.

Although we strive to make our information accurate and useful, you should consult a lawyer before applying it to your particular situation.

We do not take responsibility for rashes, financial ruin, or any other misfortune that follows — either directly or indirectly — from applying the information in this book.

We are not lawyers. Get a lawyer.

Tell me a story.

— EVERY CHILD

INTRODUCTION

Investors don't invest in businesses. They invest in stories about businesses.

If you want to raise money on favorable terms, you need multiple investment offers. How do you get multiple offers? Tell a good story to several investors at the same time. A good story can't sell a pile of garbage, but it will keep a gem from going unnoticed.

You can tell a story in a sentence; you can tell a story in a paragraph; and you can tell a story in a 20-minute pitch. Startups need to do all three.

We've founded companies like Epinions; helped start companies that are backed by Sequoia, Benchmark, and Kleiner Perkins; raised \$100M or so for startups; and invested another \$20M in about 12 companies. This book summarizes some of the lessons we've learned about pitching companies to investors.

With modifications, you can also use these techniques to pitch prospective employees, partners, customers, and anyone else you seek to influence.

Many successful investors and entrepreneurs, such as Marc Andreessen, David Cowan, and Brad Feld, have generously contributed passages sprinkled throughout this weighty tome.

Many of the ideas in this book first appeared on venturehacks.com — that was our first draft. With the feedback of our readers and beta testers, we have created this book — a second draft. Please enjoy, and send us feedback — so the next revision is even better. We can't respond to every e-mail, but we do read and appreciate them all. *Thank you!*

NIVI AND NAVAL
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San Francisco, California
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SUMMARY

Pitching Hacks, in one page.

Don't spam investors with your business plan. Instead, convince **middlemen** to introduce you to investors. An effective middleman is simply someone investors listen to — often another entrepreneur or investor.

Find middlemen by picking up the phone and calling everyone you know, who knows investors well, who will listen to you. Then use these tools to pitch middlemen and investors alike:

1. An **elevator pitch**. The major components of an elevator pitch are traction, product, team, and social proof. And investors care about traction over everything else.
2. Your elevator pitch should include a **high-concept pitch**: a single sentence that distills your startup's vision. A high-concept pitch is the perfect meme for fans and investors who are spreading the word about your company.
3. Also consider sending investors a “ten-slide” **deck** that tells a compelling story about your team, product, traction, and plans.
4. You don't need a “**business plan**.”

Finally, don't ask for an **NDA** — investors won't sign one. Your elevator pitch and deck probably won't get in the hands of the competition, but you should assume they will. So don't share information that must remain confidential.

Chapter 1

TRACTION

Traction is a measure of your product's engagement with its market. Investors care about traction over everything else.

What is traction?

Traction speaks louder than words

For investors, the product is nothing.

— MARC HEDLUND
Founder, Wesabe

What is traction?

Whether they're reading an elevator pitch or listening to a presentation, investors care most about *actual* traction in a *seemingly* large market.

Traction is a measure of your product's engagement with its market, *a.k.a.* product/market fit. In order of importance, it is demonstrated through profit, revenue, customers, pilot customers, non-paying users, and verified hypotheses about customer problems. And their rates of change.

A story without traction is a work of fiction. You must start building your product and start testing it with your market before you start raising money.

If this seems impossible, reduce scope. Put your idea on a piece of paper and start testing it with customers: "Does this solve your problem? How much would you pay for it?" This is the kind of data that can sway investors, even if your product is only a piece of paper.

Investors want to invest in startups that will be successful with or without them. And those who succeed don't wait for investors before they begin to create. They can't wait to carry their idea forward.

Traction speaks louder than words

If you have incredible traction in what seems to be a large market, you can raise money no matter what the product and team look like — although a good product and team will improve your terms.

If you have some traction and the market seems large, your product and team are both critical to raising money.

If you have *no* traction, a great demo or a previously successful team are essential.

And if the market doesn't seem large, investors won't care about your product, team, or company at all.

In general, the more you need money, the less likely that you're going to get it. But making something out of nothing is what entrepreneurs do.

In a great market – a market with lots of real potential customers – the market pulls product out of the startup. The market needs to be fulfilled and the market will be fulfilled, by the first viable product that comes along.

The product doesn't need to be great; it just has to basically work. And, the market doesn't care how good the team is, as long as the team can produce that viable product. In short, customers are knocking down your door to get the product; the main goal is to actually answer the phone and respond to all the e-mails from people who want to buy.

And when you have a great market, the team is remarkably easy to upgrade on the fly. This is the story of search keyword advertising, and Internet auctions, and TCP/IP routers.

Conversely, in a terrible market, you can have the best product in the world and an absolutely killer team, and it doesn't matter – you're going to fail. You'll break your pick for years trying to find customers who don't exist for your marvelous product, and your wonderful team will eventually get demoralized and quit, and your startup will die. This is the story of videoconferencing, and workflow software, and micropayments... 🙅

... Whenever you see a successful startup, you see one that has reached product/market fit – and usually along the way screwed up all kinds of other things, from channel model to pipeline development strategy to marketing plan to press relations to compensation policies to the CEO sleeping with the venture capitalist. And the startup is still successful.

Do whatever is required to get to product/market fit. Including changing out people, rewriting your product, moving into a different market, telling customers no when you don't want to, telling customers yes when you don't want to, raising that fourth round of highly dilutive venture capital – whatever is required.

— *Marc Andreessen, Founder, Netscape*
“The Pmarca Guide to Startups, part 4:
The only thing that matters”
blog.pmarca.com

Chapter 2

INTRODUCTIONS

Don't spam investors with your business plan. Instead, convince middlemen to introduce you to investors. An effective middleman is simply someone investors listen to. Find middlemen by picking up the phone and calling everyone you know, who knows investors well, who will listen to you.

Why do I need an introduction?

How do I get an introduction?

Who makes the best introductions?

Who makes the worst introductions?

What should I send middlemen?

VCS are generally bombarded by requests for meetings, so a warm introduction helps an entrepreneur's request float to the top of the list.

— CHRIS WAND
Foundry Group, Investors in
Zynga

Why do I need an introduction?

You're not the only entrepreneur in the world who is trying to raise money. Investors get more requests for meetings than they can accommodate in this lifetime or the next. So they use introductions to prioritize and filter meeting requests.

You *could* send investors a cold e-mail, but your traction, team, or product better be mind-blowing — and they probably aren't.

Getting an introduction is a test of your entrepreneurial skills. If you can't convince a middleman to make an introduction, how will you convince employees to join your company? How will you convince customers to buy from you? How will you convince investors to put their money in your pocket?

Who makes the best introductions?

An effective middleman is simply someone investors listen to.

But not all middlemen are created equal. The quality of the middleman helps investors prioritize meeting requests. It's easier to land a meeting with a high-quality middleman. And if the middleman sucks, you won't get a meeting.

Who makes the best introductions? In rough order of effectiveness:

1. Entrepreneurs whom the investor has backed and made money with, wants to back, or is currently backing.
2. Other investors whom the investor has co-invested and made money with, wants to co-invest with, or is currently co-investing with.
3. Market, product, and technology experts such as senior executives at dominant companies or lauded professors.
4. Lawyers, accountants, and sundry industry people like us.
5. Communists.

6. Someone the investor met at a party once.

Use this list to measure a middleman's potential. But the details of a middleman's relationship with investors are more important than this list. So ask your middleman questions like:

“How do you know the investor? What have you done together? What companies have you sent him that he has subsequently backed? What makes our company interesting enough for you to make an introduction?”

Who makes the worst introductions?

There are some introductions that hurt more than they help.

First, investors who decline to invest in your company may offer to introduce you to other investors. An introduction by an investor who makes it a habit to invest in businesses like yours, but doesn't want to invest, is a useless introduction. So skip these introductions if the first investor doesn't have a good reason to not invest.

Instead, ask the first investor who he wants to introduce you to. Then get your own introductions to these investors.

Second, you don't want introductions from middlemen who investors barely know. Or middlemen who investors don't trust. These introductions just make you look bad. Use the questions in the previous section to weed out these middlemen. If an introduction starts with "I don't know if you remember me," you're in trouble.

How do I get an introduction?

Pick up the phone and call everyone you know, who knows investors well, and will listen to you. Call in all your favors to get the attention of middlemen.

Explain why investors will appreciate the introduction. How? Use the high-concept pitch and elevator pitch that we describe in the following chapters.

If you're building an interesting company, people will offer to introduce you to investors. It makes them look good. In Hollywood, *content is king*. In Silicon Valley, *dealflow is king*.

Get the middleman to focus on making a single great introduction. Three weak e-mail introductions won't do anything, but one strong phone call might.

If you're having no luck convincing middlemen to make introductions, consider making them advisors as an incentive or reward.

If that doesn't work, ask the middleman to recommend investors or other middlemen:

“Can you suggest just one person we should be talking to? We’ll find our own way to him or her, and we won’t use your name.”

If you can’t find middlemen who know investors at all, start asking people “Who do you know, who knows investors?”

Finally, if you can’t get a single introduction to an investor who makes it a habit to invest in companies like yours, go back to the drawing board. Grow your company to the point where investors get interested. Go work at a startup and make the right connections. Hang out in the lobby of conferences and make the right connections. Start blogging about your company. Sit down with your team and brainstorm about how to get introductions. Brainstorm about how to get your company to a point where you can get an introduction.¹

Nobody said this was fast or easy.

¹ See Marc Andreessen’s “When the VCs say ‘no’” for more advice: tinyurl.com/yutrb8

What should I send middlemen?

Send an elevator pitch that the middleman can forward to investors with a thumbs-up. Also consider attaching a deck. Don't ask for an NDA from the investor or the middleman. Don't send a business plan or executive summary.

We'll cover all of these topics in the following chapters.

Follow the introductions. Your lead investor will likely be a friend of an angel who you met through the advisor you met at your girlfriend's father's 55th birthday party.

We spoke with 16 angels and 12 VCs. Angels made 24 introductions; VCs only made four. The average angel introduced us to 1.5 other investors, but the average VC only introduced us to 0.33 other investors. That's a 5x difference!

— *Adam Smith, Founder, Xobni*
“Raising Money, Some Data and Tactical
Advice, Letters to Graduating YC
Companies, Letter 2”
xobni.com

In my environment – a middle sized Midwestern city (Fort Wayne, IN), the middleman list is a bit broader (and we are typically talking to angels, not VCs). It would include economic development people, business incubator people (that’s what I do for a living at the moment – a tech incubator, see niic.net), local government officials (city council, county council, state representatives), and the local business press. In my setting they’d probably rank somewhere between 2 and 3 on your list.

— *Steve Franks*
Personal communication
niic.net

At Industrial Interface, we have come across "pay for introduction" types of middlemen. We've worked with a couple of the groups, and had varying levels of success. We are currently working with a professional middlemen group that charges us, but has had valuable advice – they've changed my opinion of the pay-to-play introduction scene. For a group like ours, with few industry connections, using a professional (who also usually offers consulting advice on business documents) is a necessity. However, in my experience, most of them are not worth the money.

— *Travis Leleu*
Personal communication
industrialinterface.com

PITCHING RESOURCES

Great blog posts on pitching we wish we had written.

1. Why startup pitches fail (and how to fix them) by Eric Ries

“Pitches usually fail because they answer the wrong questions. The right questions depend on the stage of your business—for example, some businesses are just getting started with an idea, while others are printing money. Focus your pitch on the key questions for your stage and if you keep getting non-key questions, something is wrong with your pitch. This post includes a hierarchy that you can use to classify your business and the key questions for each stage in the hierarchy.”

Read the rest at venturehacks.com/articles/why-pitches-fail

2. Raising Money Using Customer Development by Steve Blank

“Notice that each of the ‘Lessons Learned’ slide has three major subheads and a graph: *Here’s What We Thought*. *Here’s What We Did*. *Here’s What Happened*. *A Progress Graph*.”

Here’s What We Thought is you describing your initial set of hypotheses. *Here’s What We Did* allows you to talk about building

the first-pass of the products minimum feature set. *Here's What Happened* is the not so surprising story of why customers didn't react the way you thought they would. *A Progress Graph* on the right visually shows how far you've come (in whatever units of goodness you're tracking – revenue, units, users, etc.)”

Read the rest at <http://steveblank.com/2009/11/05/raising-money-with-customer-development>

3. How To Demo Your Startup by Jason Calacanis

“Talk about what you've done, not what you're going to do. Weak startups and their leaders seem to immediately start talk about “what's next,” as opposed to focusing on the core product. Anyone can say we're going to add: a mobile version, collaborative filtering, an advertising network, visualizations, a marketplace, a browser plugin, a browser and a social network to their product. In fact, given the amount of open source and off the shelf software out there, combined with the large number of developers in the world, anyone can bolt these things on to their service in a week or three.”

Read the rest at <http://www.techcrunch.com/2008/08/09/how-to-demo-your-startup>

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Yo!

