How Not to pitch to Potential Investors

Many small businesses struggle with the need for raising capital for their company and in many cases the thought comes about trying to find someone or some company to make an investment in their operation. These situations are common to SCORE mentors who assist clients in this discussion.

So, what are these investors looking for and what are the best things to include in a pitch to attract investors? I will again depend on the expertise of Tim Berry whose knowledge and experience I respect and as I have shared before, I have worked with one of his companies and products (LivePlan) for assisting clients in business plan development. Who better to ask than a person who is an angel investor himself. He is the Founder and chairman at Palo Alto Software. He recently wrote about what annoys him as he reads pitches from those who are looking for angel/venture capital investors. This was published in the Quora website. Here are his insights on what not to include.

1. **Profits.** Talk of profits, overestimated profits, the failure to understand that investors make money on growth, not profits; startups with high growth rates are rarely profitable; profits in high-growth startups stunt growth and reduce the odds of successful exit. That’s why you need to spend other people’s money, right?

2. **“I don’t need no stinking projections.”** Surprises me how often I’ve seen it. “We all know,” the pitcher says in a cynical tone, “that all these projections are useless.” Or sometimes it’s a holier-than-thou tone. But no. I need you to think though unit costs, realistic volume, the conceptual links between marketing spend and volume, what it takes to fund growth. I want to know that you know, roughly, that you’re growth will take a ton of marketing spend, and that when you get to $20 million annual sales you are going to have a big payroll and overhead.

3. **Expecting me to believe your numbers.** You’re damn right I want to see them, but don’t expect me to believe them. I use them to guess how well you know the nuts and bolts of your business. But at the moment of truth, I’m going to trust my instinct for what I think you can sell, and how much I think you can grow, given the stories you’ve told me and the markets you’ve carved out.

4. **Discounted cash flow, IRR and NPV.** Amazing how people can believe numbers that project the future based on a compounded absurdity of assumed sales, less assumed spending, multiplied by an assumed discount rate, five years from now. And yet, I see young people crushed because I wanted something that had a lower IRR than their thing. Y’see, I didn’t believe the IRR either way. I went with the people and the market. This is
actually a particularly annoying subset of the point above it.

5. **The annoying myth that nobody reads business plans.** Big mistake: confusing the obsolescence of the big pompous formal use-once-and-throw-away business plan of the past with not wanting or needing planning. Ask the two faces of lean startups, Eric Ries and Steve Blank, whether startups need to set strategy, tactics, milestones, metrics, and essential projections for revenue, spending, and cash, and they’ll say the equivalent of “yes of course.” But they are (mis)quoted often as saying don’t do a business plan. What they mean – ask them – is don’t do an old fashioned business plan. Keep it lean, revise it often, and manage with it.

6. **Knowing everything.** Sometimes people think investors want founders who know everything, answer each question no matter what, and are the world’s leading expert on any possible subject to come up. No. I want people who know what they don’t know, and aren’t afraid to be not certain.

7. **I don’t want people who get all defensive when challenged.** The win is in the relationship, long term. I can’t tell you how many times I’ve seen private discussions between investors, after a pitch, go negative for somebody who investors feel “isn’t teachable.” It’s easier to work with people who listen, digest, than with people who think every doubt is a challenge to their leadership and authority.

8. **The small piece of a huge market.** No, please, don’t ever tell me that your $10 million sales figure is realistic because it’s only one percent of a $10 billion-dollar market. Or 1/10th percent of a $10 billion market. That logic never works. Build your forecast from the units up, not from the top down.

9. **Oversharing the science or technology.** I want to hear about the business, not the physics, not the biology, not the chemistry. Pitches and plans are not the right place to show off all of your knowledge.

10. **Not needing the money.** If you don’t need the money then don’t seek investment. Own it yourself. Never seek outsider money you don’t really need. People who can live off of their generated cash flow are never going to exit.

11. **The way overused stock phrases that have been diluted to meaningless.** Things like “game changer” and “disruptive.” Don’t tell us that. Cross your fingers, and hope we tell you.

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