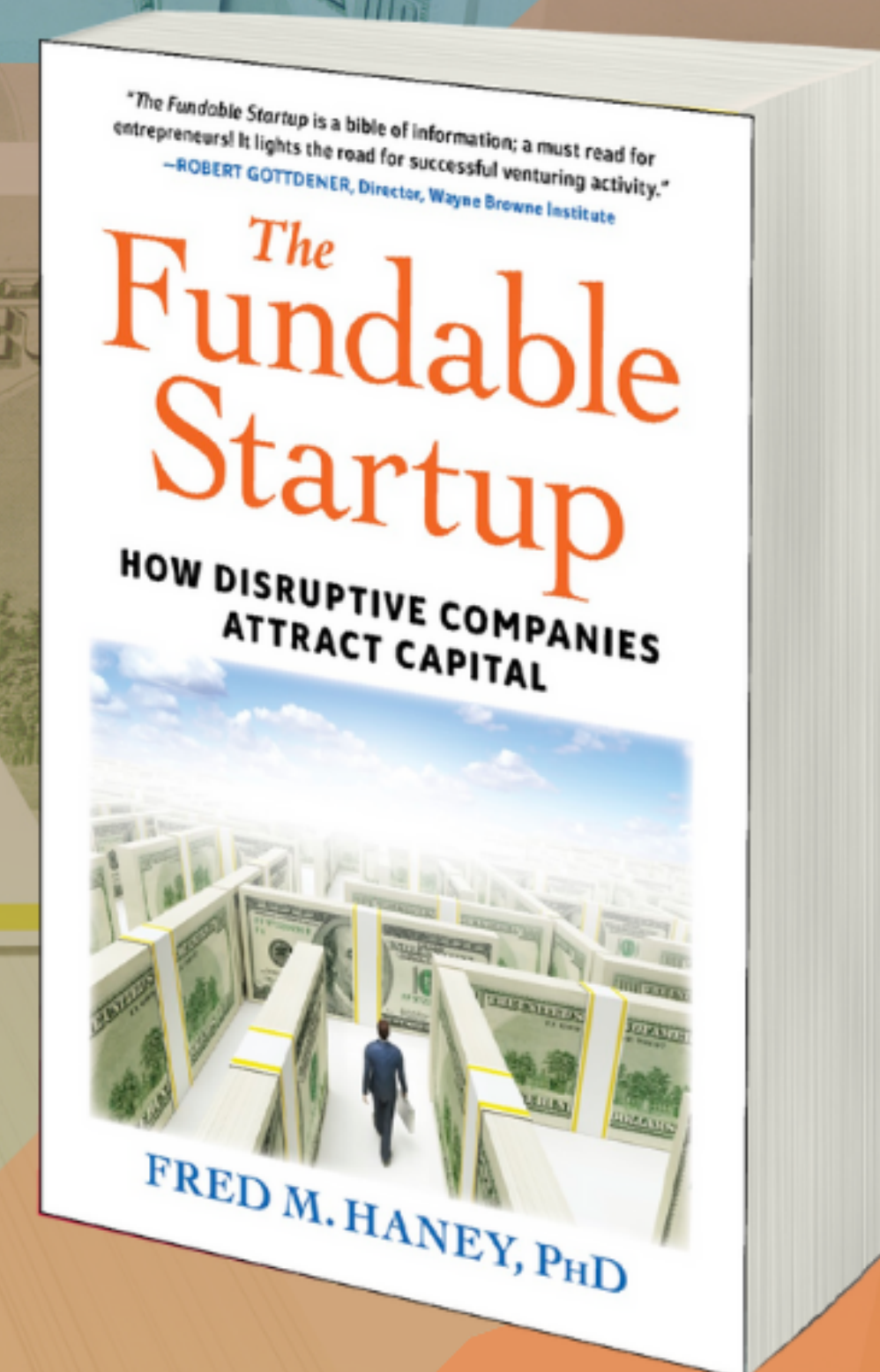


# FRED HANEY

Building Successful Startups  
for More Than 50 Years.





# How to Answer Investors' Questions

**WHAT'S REALLY BEHIND THE  
QUESTIONS INVESTORS ASK?**



## Can I Make a Good ROI by Investing in Your Startup?

This presentation is designed to help you prepare an investor pitch deck that answers the questions investors want answered. The goal of an investor pitch deck is to convince the investor that he/she has an opportunity to make a good Return on Investment (“ROI”).

How is ROI defined? This oversimplified equation exhibits the basic idea:

$$ROI = \frac{(Revenue - Mfg Cost) = Gross Margin - Expenses - Asset Purchases}{Investment}$$

To convince investors that your revenue projections are realistic, you have to show them why there will be demand for your product and how much. And how protected your product will be from competition. To convince investors that your expense forecast is realistic, you need to lay out the tasks that need to be performed and the costs. To quantify asset purchases, you need to explain the need for any equipment or property purchases. To convey the required investment, you need to calculate the capital that will be required — and when it will be needed — to operate the business.

Your pitch deck is a collection of the important assumptions behind your projections.

A pitch deck is not a fill-in-the-blanks exercise. It must answer the important questions.



## Our Idea

- Is big enough to create a new industry
- Is unique & proprietary enough that we will capture a huge share of a new market
- Solves an important problem that cannot be solved satisfactorily today
- Solves a compelling problem that is costing large sums of money today

Explain what makes your business idea “disruptive.”

Why should investors believe it has the potential to create a large business with the potential for IPO or a high-valuation acquisition?

# Problem

✓ The problem today is the

(industry, company, people)

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✓ Does not have a cost-effective way to \_\_\_\_\_

✓ Because present solutions \_\_\_\_\_

Describe what problem your idea solves and to what extent existing solutions fall short.



# Our Solution

▶ Does everything the present solution(s) do, but it also

- ▶ \_\_\_\_\_
- ▶ \_\_\_\_\_
- ▶ \_\_\_\_\_

▶ And it does it

- ▶ \_\_\_% faster
- ▶ \_\_\_% better
- ▶ \_\_\_% cheaper

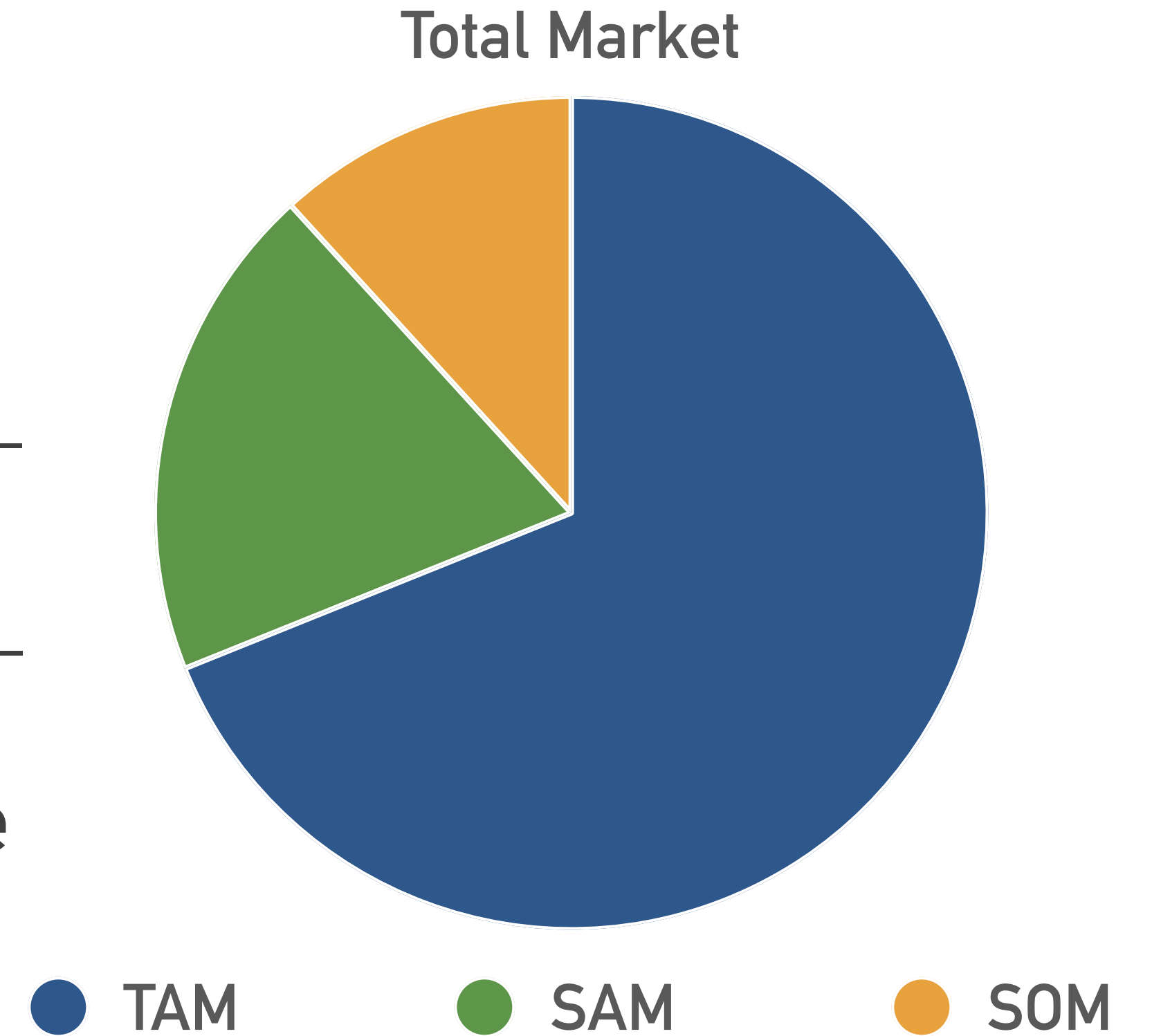
▶ And these differences are compelling enough to persuade customers to buy our product because \_\_\_\_\_

Give as much quantitative information as possible to explain how (and how much) your solution is better than existing solutions or the way the problem is solved today.



# Market Size

- ▶ The total market is \$\_\_\_\_\_
- ▶ The market for products like ours (TAM) is \$\_\_\_\_\_
- ▶ The market we intend to “serve” (SAM) is \$\_\_\_\_\_
- ▶ We can obtain at least 25% share in the SOM (Serviceable Market)



Segment your market as narrowly as possible. Show how you can address a segment that gives you 25% market share or greater. Profitable companies have significant market share in their segment.



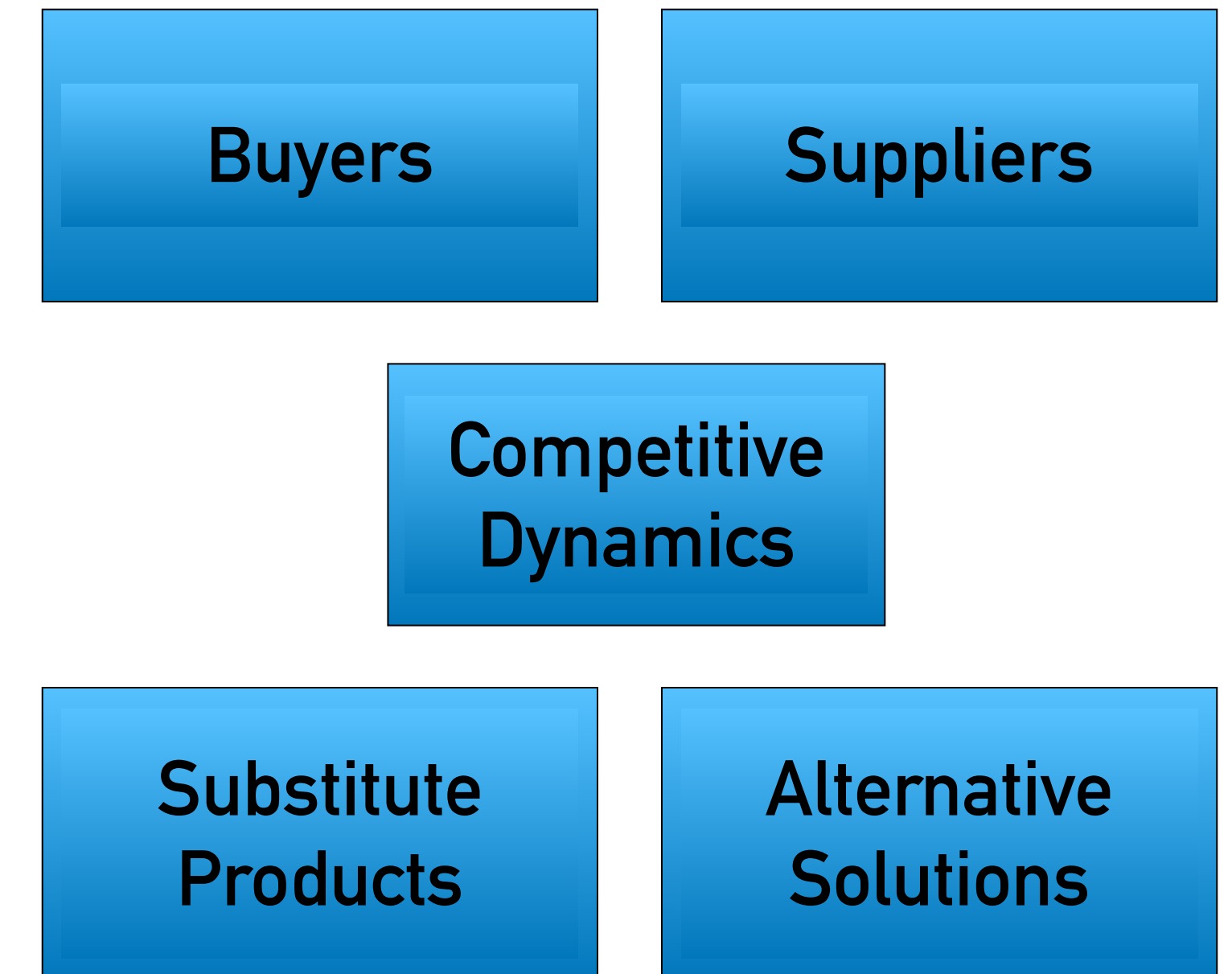
## The Core Technology that Enables Our Product:

- ▶ Our method is measurably better than other technologies because \_\_\_\_\_
- ▶ Our technology is protected by patent(s) \_\_\_\_\_.
- ▶ To get around our patents, a competitor would have to \_\_\_\_\_

If your product is based on underlying science or technology, explain how and why your technology is better than others. Investors are looking for products that have “sustainable competitive advantage.”



- ▶ Important relationships
  - ▶ Value Chain
- ▶ Basis for competition
  - ▶ Dynamics
  - ▶ Other products and solutions
  - ▶ Effect on vendors



The bible for Industry and competitive analysis is “Competitive Strategy” by Michael Porter.

It shows how to analyze and describe the competitive dynamics within an industry.



# Competition

10

- ▶ What is the basis for competition?
  - ▶ Price
  - ▶ Performance
  - ▶ Size
  - ▶ Other?
- ▶ What segment can we dominate?
- ▶ How can existing vendors change their offerings to compete with you?

Price	Z	Our Company
	X	Y
	Performance	

Show investors how you can obtain and sustain your "unfair competitive advantage."



## Segment of Maximum Pain

- ▶ These customers will benefit from our product:
  - ▶ This subset of customers would gain special advantage from our product
  - ▶ This subset of customers really cannot survive without our product because of the pain they are experiencing
  - ▶ This subset of customers have said they would buy our product immediately if it were available

Many startups make their initial product sales to “early adopters.” Can you define your early adopters?

You might target other markets in the future, but where is the “low-hanging fruit” for your product?





## Our “Served Market” is Defined by:

- ▶ Customers who can benefit from our solution
- ▶ Customers we specifically plan to sell to
- ▶ Other vendors solving the same problem our product solves and selling to the same customers

Your “served market” is the market you actually intend to “serve” (sell products to). Your SOM (serviceable market) is even narrower—it includes only companies that you are *able* to serve because of geographic or other limitations.



## Initial Application

13

- ▶ Our first customers have the following special needs that compel them to buy our product:
  - ▶ \_\_\_\_\_
  - ▶ \_\_\_\_\_
- ▶ Our first application is \_\_\_\_\_
- ▶ The value of our first application to our first customers is \_\_\_\_\_

It is important to measure/quantify the value of your product to the customer. It's not sufficient to say, "Our product is 'better' than any other solution." The question is not, "Is it better?" The question is, "Is it **enough** better to get customers to buy it?" How does the customer define and measure "better?" Price? Performance? Speed? Other?

## First Product

▶ In order to satisfy the specific needs of our first customers, we will offer the following product:

▶ \_\_\_\_\_

▶ \_\_\_\_\_

▶ The product will be different from our standard product in these ways:

▶ \_\_\_\_\_

▶ \_\_\_\_\_

Will your initial product have the full function, or will you be introducing an “early version,” “most viable version,” or some other product that has less function than the ultimate product? If your initial function is limited in any way, explain why and how and your plans for conforming the product to the full definition.





## Our Product is Protected Because

- ▶ Our patents keep competitors from doing the following:
  - ▶ \_\_\_\_\_
  - ▶ \_\_\_\_\_
- ▶ Only \_\_\_\_\_ people in the world could do this
- ▶ It cannot be reverse engineered because parts of the manufacturing process disappear
- ▶ Our manufacturing process never leaves the factory and cannot be determined by examining the product

Make the best case that your product has sustainable competitive advantage and the reasons why.

Some patents provide more protection than others.

Explain what your patents will keep a competitor from doing.



## Our Product is “Enough” Better

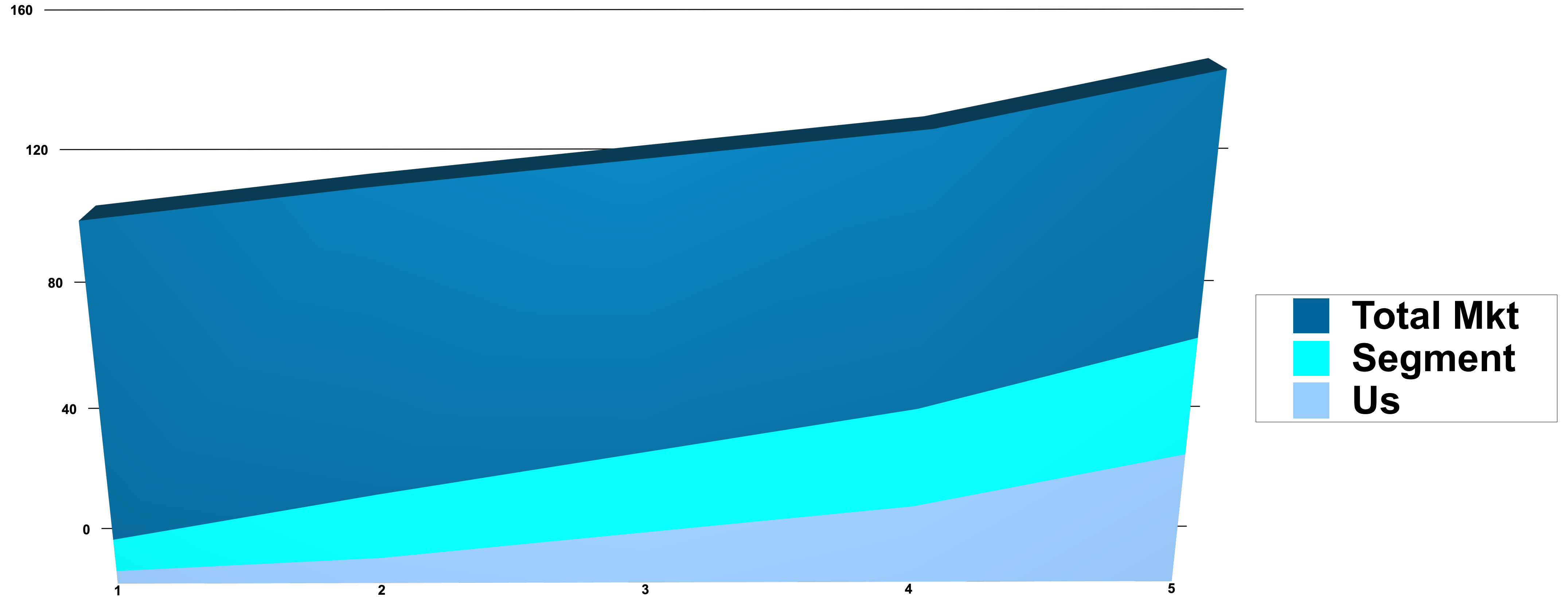
- ▶ Market intelligence tells us customers will:
  - ▶ Switch vendors
  - ▶ Buy a new product
  - ▶ If the product is     % “better” defined by:  
\_\_\_\_\_ , \_\_\_\_\_ , \_\_\_\_\_
- ▶ Our product has more **advantages** than this and no shortcomings
- ▶ We know that we can maintain this advantage over our competitors

Explain how you know that customers will perceive your product as “enough” better that they will buy your product instead of other alternatives. How are you measuring “enough better?”



# Market Penetration Rate

17



Most products sell initially to early adopters and then branch out to larger, more general customers.  
What is a reasonable market penetration rate for your product?



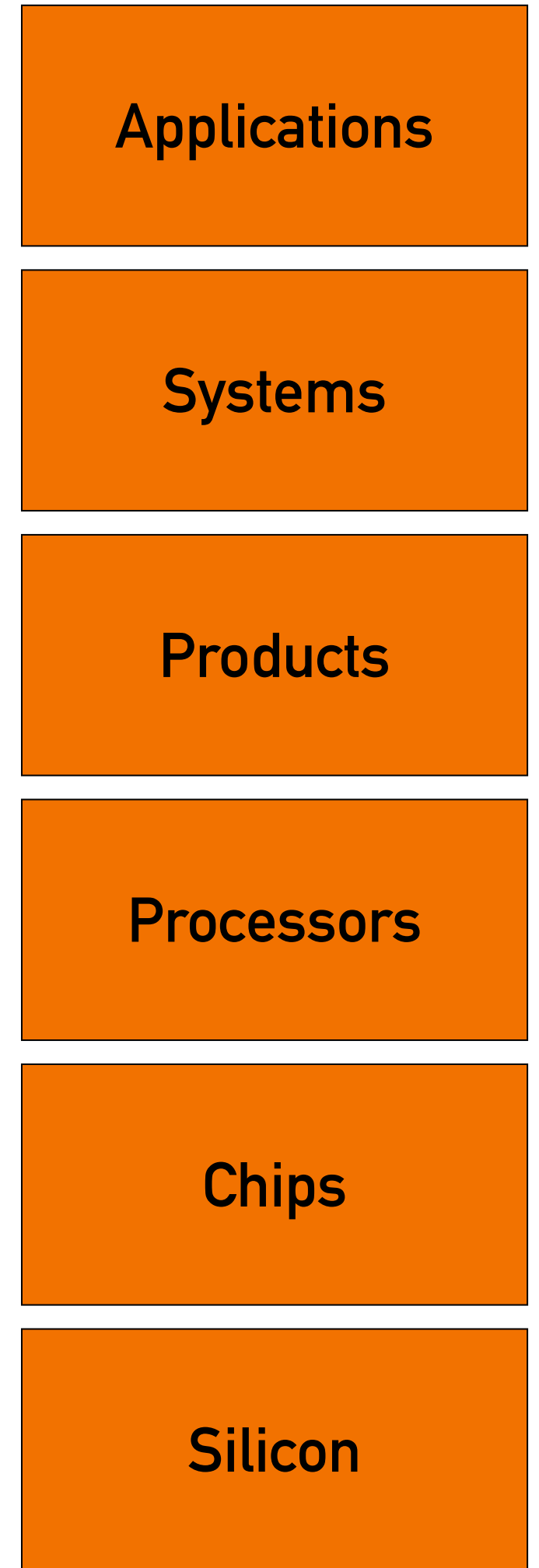


# Value Chain

18

- ▶ We will operate at the \_\_\_\_ level
- ▶ We will buy product from \_\_\_\_
- ▶ We will sell to \_\_\_\_
- ▶ We plan to do the following vertical integration:
  - ▶ \_\_\_\_
  - ▶ \_\_\_\_

Value  
Added



"Value chain" is, "to whom do you sell?" and "from whom do you buy?"  
Who is your customer? From whom do you buy parts or raw materials?

Are you fully-integrated, meaning you make everything? Or do you operate at a specific level of the value chain??"

## Strategic Partners

▶ We plan to do the following ourselves:

- ▶ \_\_\_\_\_
- ▶ \_\_\_\_\_
- ▶ \_\_\_\_\_

▶ We will seek partners for the following functions:

- ▶ \_\_\_\_\_
- ▶ \_\_\_\_\_
- ▶ \_\_\_\_\_

Describe any strategic partners with which you have agreements, any pending strategic partnership agreements, and any functions for which you plan to seek strategic partners in the future.

Provide realistic assessments of all existing and pending strategic arrangements.

▶ We will position ourselves as:

▶ \_\_\_\_\_

▶ \_\_\_\_\_

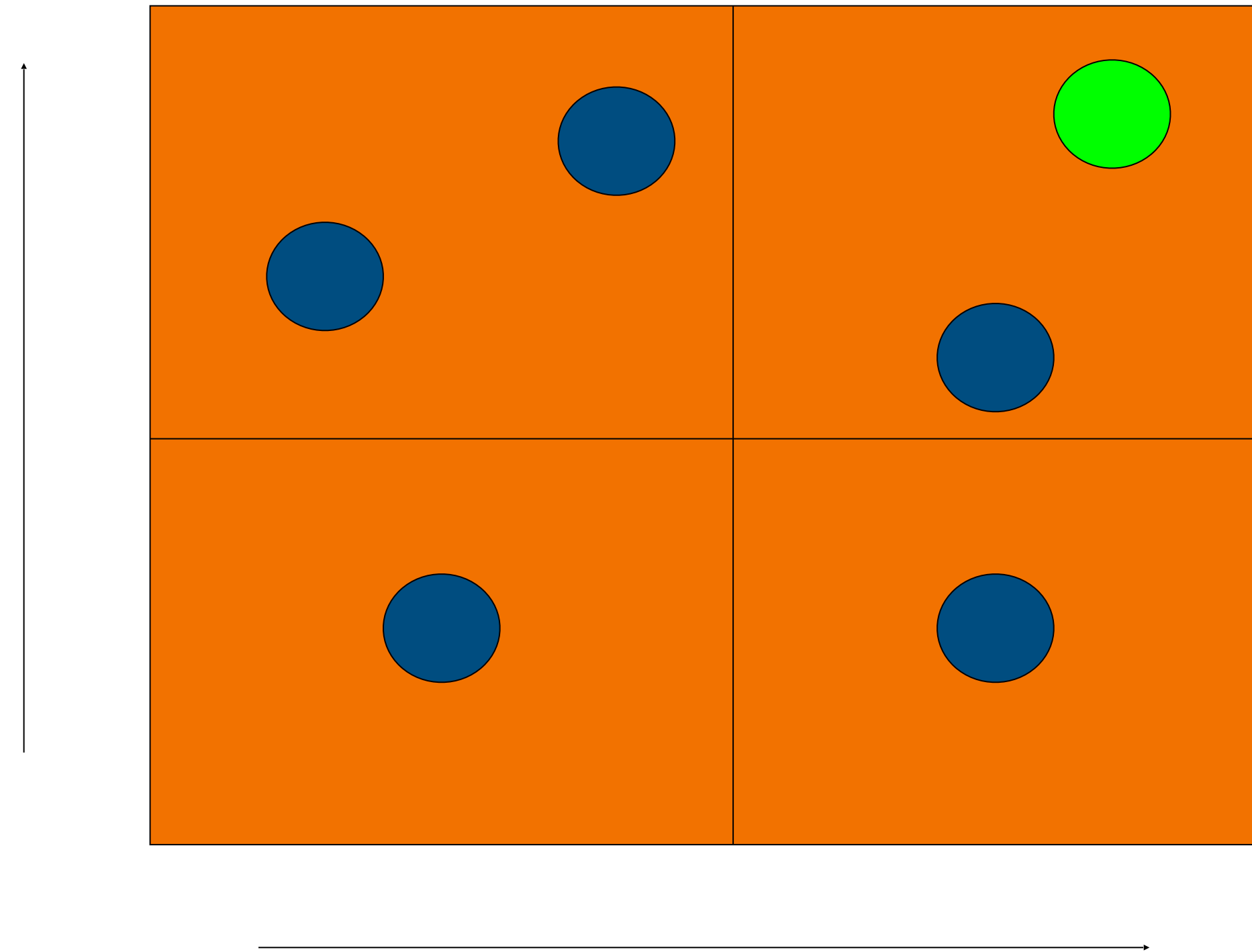
▶ \_\_\_\_\_

▶ By doing the following:

▶ \_\_\_\_\_

▶ \_\_\_\_\_

▶ \_\_\_\_\_



Describe your desired industry competitive position and your strategies for achieving and maintaining it.





## We Will Adopt the following Selling Strategies

(Pick Appropriate Ones):

- ▶ Direct Sales (B2B): \_\_\_\_\_
- ▶ DTC (Direct to Consumer): \_\_\_\_\_
- ▶ Distribution: \_\_\_\_\_
- ▶ Value Added Reseller: \_\_\_\_\_
- ▶ Dealers: \_\_\_\_\_
- ▶ OEM: \_\_\_\_\_
- ▶ Retail: \_\_\_\_\_
- ▶ Telemarketing: \_\_\_\_\_
- ▶ Strategic Partners: \_\_\_\_\_

**Describe your plans for selling your product. Many startups start with a few sales made by the CEO or sales manager and then transition to one or more other methods of selling the product.  
Explain how you expect your selling strategies to evolve.**



## Our Management Team Has the Relevant Experience to Execute

	Relevant Experience	Relevant Accomplishments
CEO		
CTO		
VP Marketing & Sales		
VP Manufacturing		

The question about you and your team is, “Why are you the right team to build this company?” Explain your and your team’s management experience and previous accomplishments and tell investors why they should have confidence that you will be able to accomplish your objectives.

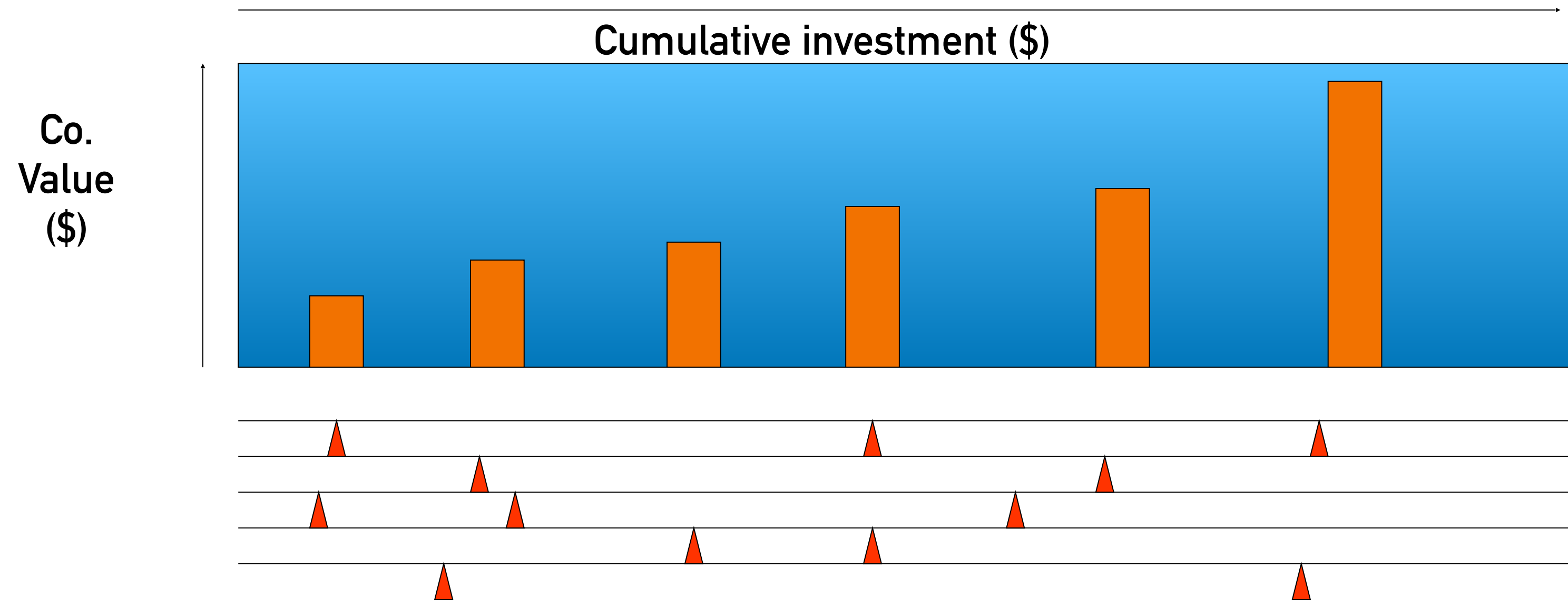
## Business Model

$$ROI = \frac{(\text{Revenue} - \text{Mfg Cost}) = \text{Gross Margin} - \text{Expenses} - \text{Asset Purchases}}{\text{Investment}}$$

Your company's Business Model is a brief summary of the investor's ROI equation.  
How will your company make a profit?

- ▶ What is the product price?
- ▶ What does it cost to manufacture the product?
- ▶ What are the important expenses?
- ▶ What "capital" investments are required?
- ▶ What investment is required?
- ▶ Over what period of time?

- ▶ Financing strategy depends on capital needed to reach key milestones
- ▶ Add significant value
- ▶ Reduce risk significantly
- ▶ Never build a bridge halfway across the river

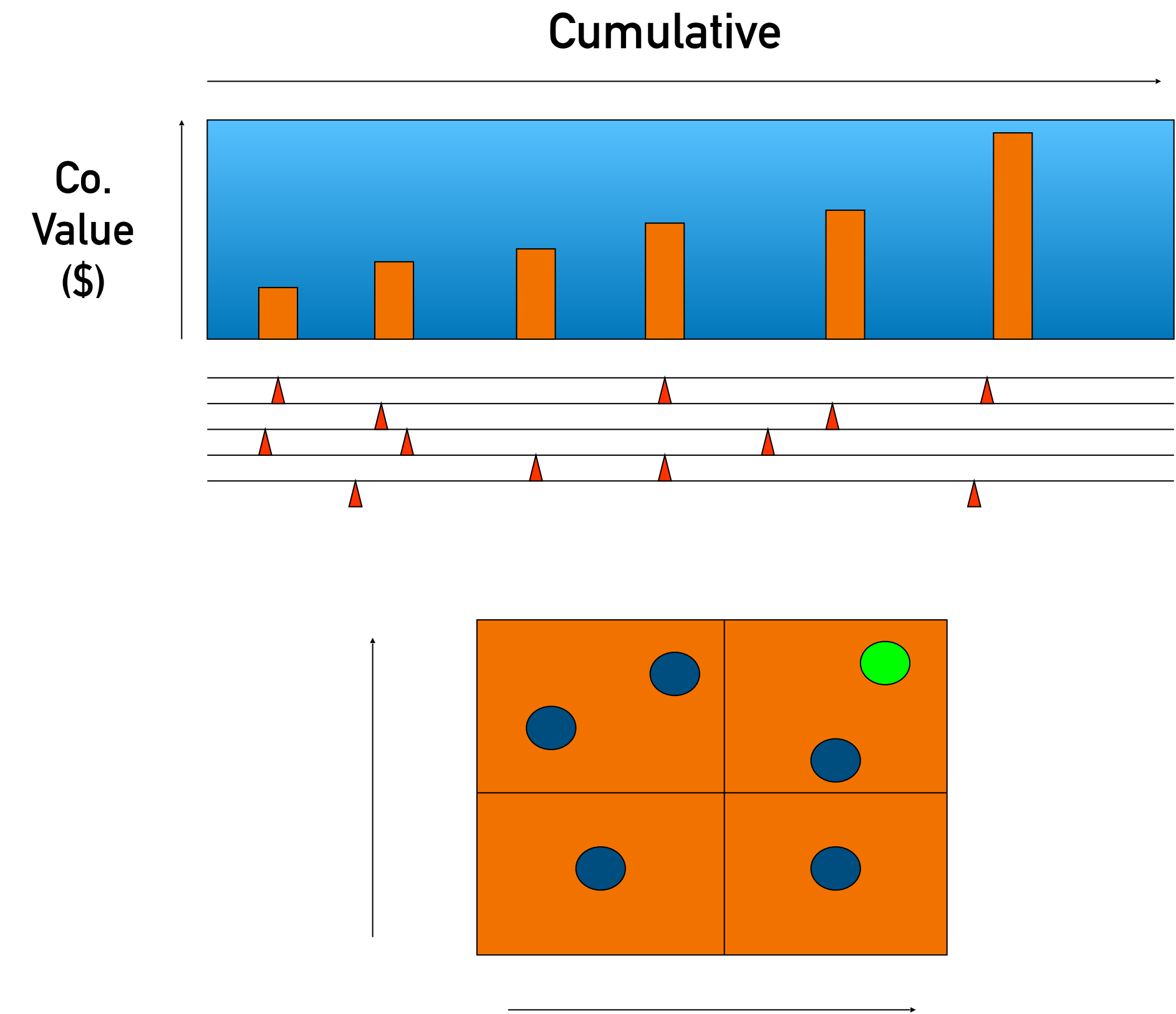
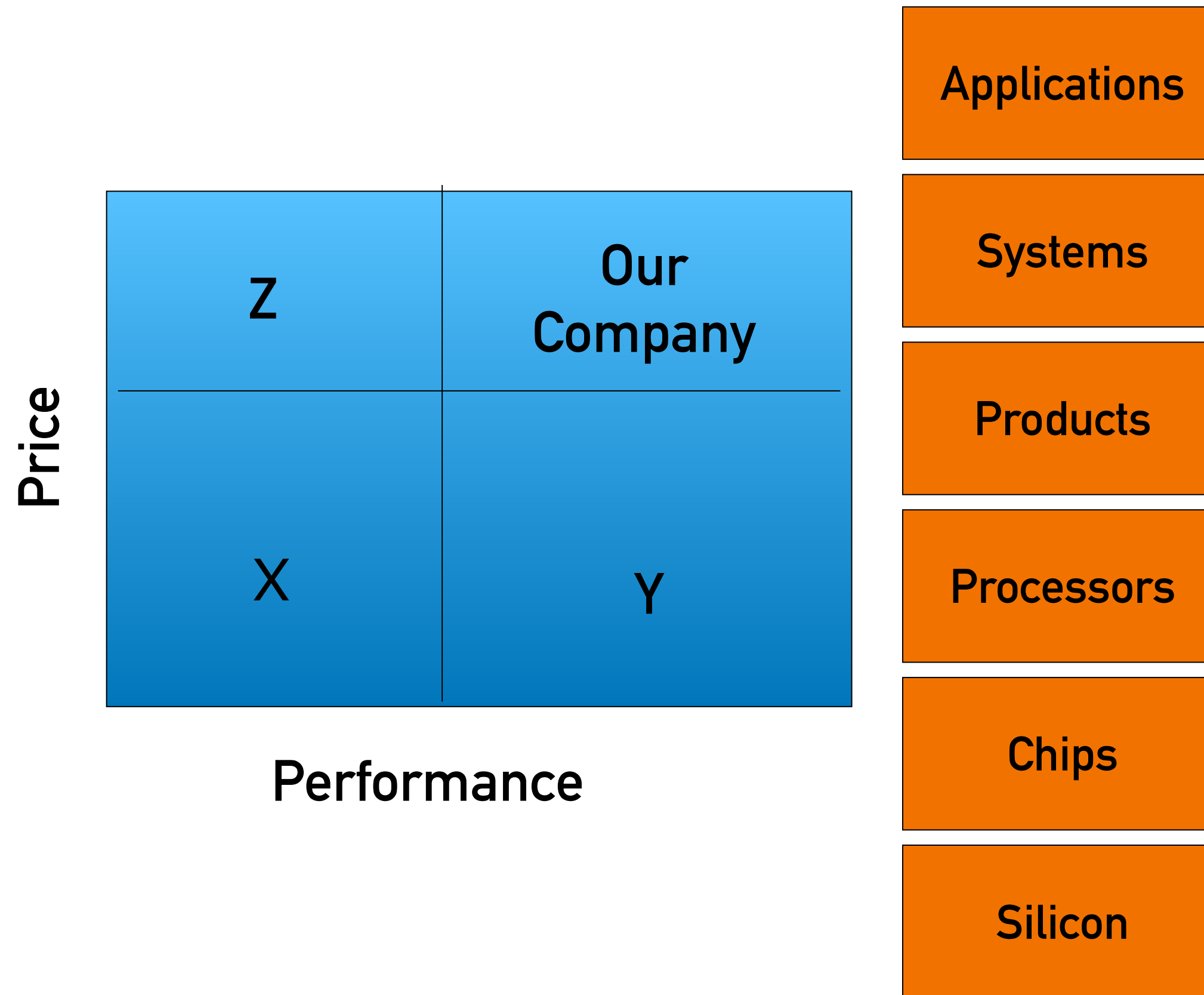
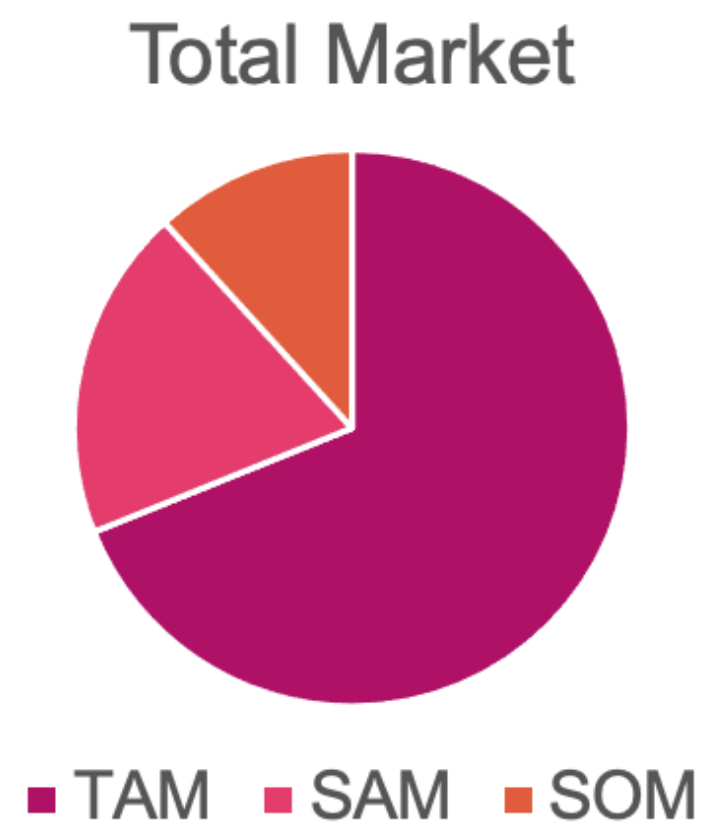


Define the critical benchmarks your company must meet along with their cost and date of completion. This information determines the amounts and timing of the capital infusions you will need.





# Use of Graphics



These are all of the graphics used in this presentation. They are used because they are more effective than words for conveying a message. Avoid graphics that are confusing or require explanation. Don't use graphics just for the sake of being cute or pretty. Use graphics only when they communicate more effectively than words.



## A Deck for all Seasons

Pitch Decks get used in different ways. In many cases, your pitch deck will be your “application” for a meeting with a venture capitalist or other investor. Another time, you may use your deck in a live presentation. Some investors like to print pitch decks, so you should avoid the use of heavy/dark backgrounds that use a lot of printer ink or toner. If you follow this format closely and keep your bullets concise, you should have a pitch deck that will be effective either as an “application” deck or as a “pitch prompter” deck. In my experience, it is not generally necessary to create separate “application” (free-standing or self-explanatory) and “pitch prompter” (short bullets requiring explanation) decks.

**Good luck!!**  
**- Fred Haney**