



Tips on Talking to and Tapping Potential Investors

Debra Reisen­thel, chief executive at Palo Alto Health Sciences, has been trying to raise money from investors for the last four months. The goal is to finance the development and production of a biofeedback device that measures carbon dioxide output and trains people to breathe in a way that helps them manage anxiety disorders. Along the way, Ms. Reisen­thel said, she has learned some important lessons about pitching to investors. “We used to start meetings with a story about our founder, the problem we were addressing, its cost to society and the scientific research that led to our business idea,” she said, “but investors wanted to know right away, ‘What exactly are you selling and who is going to buy it?’ ”

As a result, Ms. Reisen­thel learned to get to the point, immediately. Whether they are pitching to venture capitalists, angel investors or friends and family, entrepreneurs who have been through the process stress the importance of making a crisp presentation, sizing up competitors and knowing what kind of information the potential investors require.

KNOW YOUR AUDIENCE Angel investors and venture capitalists come to the process at different times with different needs and goals. “The angel investors we met with during our idea stage were interested in the zeitgeist of the project,” Ms. Reisen­thel said. “They were excited to be part of what we were trying to achieve, and they were O.K. with unanswered questions. They didn’t need a detailed five-year plan, and understood their investment would be diluted in value when we took on additional funding.”

She said the venture capitalists, by contrast, are generally willing to invest more money but they want to know when the company expects to be profitable. “V.C.’s are more about the details — market size, business model, cash flow plans, sales break-even point and how the company will find customers,” Ms. Reisen­thel said. They were more likely to want to be involved in strategic decisions, expected regular updates and often wanted a seat on the board of directors. “They were also less willing to accept risk than angel investors.”

KEEP IT CONCISE Pete Higgins, a founding partner at the venture capital group Second Avenue Partners in Seattle, has heard hundreds of pitches over the last five years and has financed about 7 percent of them. He said a concise presentation was telling because entrepreneurs who can explain a complicated set of technologies or a new product show they are smart, that they have done their research and that they can communicate — all factors critical to a company’s future.

Ms. Reisen­thel uses a slide deck of about 10 and no more than 15 slides and prepares additional slides in case deeper questions arise on topics like manufacturing costs or competitive analysis. “You need to know the business, the technology, the science better than anyone in the room,” she said. “Practice in front of smart professional friends in the industry who can critique you before you go in for the real meetings.” Selling the quality of your leadership and your team is as important as the idea, Mr. Higgins said.

Sometimes just a few compelling sentences can get an idea financed. Last year, Mr. Higgins said, “A start-up veteran pitched us, saying, ‘I want to sell \$4.99 live concert recordings that are ready to be downloaded to the concertgoers by the time they get to their car in the parking lot. It’s technically straightforward, makes money for the band on tour and is an inexpensive memento for concertgoers, who are often trying to record on their phone anyway.’ ” Mr. Higgins said he knew in five minutes he would invest, and the Lively app made its debut this year.

KNOW THE COMPETITION Beyond just listing other companies in the same arena, understanding and describing the competitive landscape can be critical, according to Mr. Higgins. “If other companies have tried something similar and failed, tell us why they failed,” he said. “If the market is crowded with competitors, how will you do it better? Just having a feature they don’t is an incremental benefit and not enough to overcome the inertia that will keep customers from switching to your product.”

Mr. Higgins advises entrepreneurs to ask for financing only when they can demonstrate a transformational new technology, a new distribution method, or a better cost structure that cannot easily be copied. And recognize that there are competitors to every business idea, he said, even if it is the pencil and paper people are currently using to do the task you plan to automate.

EXPECT MISHAPS Julie Gilbert Newrui of Minneapolis raised \$1.5 million in her first round of fund-raising in June 2012 and is preparing to begin a second round. Her service, PreciouStatus, relays personalized daily updates from professional care providers to family members of people in eldercare and child care centers.

Courtesy of New York Times: http://www.nytimes.com/2013/10/17/business/smallbusiness/fine-points-of-making-pitches-to-investors.html?ref=entrepreneurship&_r=0