Peter Farrell Cup Entrepreneurial Challenge

Business Plan & Pitching Workshop
First thing first

• Please sit with your team mates
• Your kit for this workshop:

What we would try to do tonight:

• Plans, Planning and Business Plans
• Pitching
The business plan - a supported vision

- 30 secs – 3 mins/paragraph
- Executive summary
- Power Point presentation
- Business plan

1. The Opportunity
2. The products and business plan
3. The Management Team
4. The Marketing Plan
5. The Operating Plan
6. The Financial Plan
7. Offering

Holistic approach
- Not just the product ...
- Finance, marketing, HR, etc.… All parts matter
- How they combine matters, too
Consistency between all parts!
Why Plan?

THINK

DO IT RIGHT THE FIRST TIME!

PLAN AHEAD
“Plans are nothing; planning is everything.”

Dwight D. Eisenhower (US Prez. #34)

“If you fail to plan, you plan to fail”

Harvey Mckay (Business motivational speaker)

“Chance favors the prepared mind”

Louis Pasteur
Write a Business Plan for the Right Reasons

• Success results from implementation, not a plan, but a plan is an institutionalized part of the game

• More importantly, it makes your idea clearer (also for you!) and your team more solid
  – **Clarify and elaborate**: Identify milestones, metrics & assumptions
  – Writing one highlights **overlooked issues**, both in the idea and in the team
  – Writing one **brings the founding team together**
Once you made it:

- Blueprint for operating your business over the first years
- The plan’s financial projections can be used as a budget

(of course, you should modify as appropriate...)

Even if you don’t have a ‘formal’ BP, the components are a good check-list for entrepreneurial ventures
• Move from the brain-dump to the executive summary
  — “I did not have time to write you a short letter, so I wrote you a long one.”
    (Samuel Johnson)
• Don’t make it 200 pages long
• Have 1-4 page executive summary
• Written in one voice
• Simple, but meaningful financials and key metrics
Judging criteria

1. Traction:
   - Problem to be solved
   - Your solution (for a typical customer)
   - Market size (and total addressable market)

2. Viability & Realism
   - Marketing and differentiation from competitors
   - Revenue model, incl. expenses and operating costs
   - Financial statements
   - Your team and plans for growth
   - Identification of risks (e.g. competitive responses)
– Why This?
– Why Now?
– Why This Team?

(The 4th Why: Why Won’t This Work/Succeed?)

• **Concise persuasiveness is key:**
  – brief with only the most pertinent assessment of facts to support.
  – Have a clear logical flow
  – Have a ‘hook’ to make it interesting/persuasive

• After reading the executive summary or hearing your pitch, that person has to be able to retell what is it that you do
Executive Summary

Written first, written last

• What is the idea?
• Which are the market opportunities that you are willing to catch?
• How are you going to do that?
• Which are the main financial results that you think you are going to get?
• Are you asking for anything in particular?
Traction: The problem & the target

• What’s the problem you’re trying to solve?
  – For whom?
  – How painful is it?
  – What are the current solutions, and why are they woefully insufficient?
<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
<th>Unique Value Proposition</th>
<th>Unfair Advantage</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Metrics</td>
<td>Channels</td>
<td></td>
</tr>
</tbody>
</table>

**What problem do you solve? (and existing alternatives)**

**For whom?**
General idea of your target market

**Cost Structure**

**Revenue Streams**

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Traction 2: What’s your idea?

• “What do you do?”
  – Keep it simple (KISS!)
  – 1 minute max. (30s is even better!)
  – Start thinking/allude briefly about:
    • What is the business model?
    • What will it take to get there? (Planning, incl. scenarios and contingencies)
The idea – How are you different?

• **Niche / Differentiate Yourself**
  – Developing a business that *does just one thing well* is hard enough
  – **Focus** for you: forces you to constantly improve on that one thing
  – **Focus** for others: makes your business clear to customers, employees, & potential investors

• Can later expand a niche & go mainstream
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</table>

**Our solution is ...**
- What are your top 3 features?
- How will it solve the problem?

**Why are you unique?**
- Our key competition is ...
  (Existing and potential)
- We’re better (at least in some respects)
  because ....
  (acknowledge strengths and weaknesses!)

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Differentiation & Strategy Canvases

The Strategy Canvas of Southwest Airlines

(Kim & Mauborgne, 2005)
Problem + Idea = The Opportunity

- The need you are willing to satisfy
- The product/service that you offer and its characteristics (price, range, ancillary services, delivery times, etc)

- The development stage of your product (project/prototype/existing product) together with costs and timing for completing it.
  - If it is not yet market-ready, reveal your plans for product rollouts and include an artist’s rendering of the final physical product

Realism!
The Market

How big is the market opportunity you are pursuing (# & $$), how fast is it growing?
• Who are your existing customers, if any?
• Who are your target customers, and why would they buy your product?
• Who actually writes the check?

Why now? Convergence of Opportunity and Solution

Sales, Marketing and distribution strategy
◦ Price policy, distribution channels and sales network
◦ Marketing and sales expenses: customer acquisition cost
◦ Partnerships?
◦ Forecasted evolution of market shares
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</tr>
<tr>
<td>Key Metrics</td>
<td></td>
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</tr>
</tbody>
</table>

Our target customer is

* We will get customers by
  * early adopters & eventual market
  * Customers vs Users

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Viability: The Business Model

• Costs vs Revenue: How will you get money? How much?
• B/E point
• Comparables: Who will you be like in 3-5 years? Size, customer, pricing, competition
• Avoid referring to the ‘superstars’ (at least in so far that you expect to BE them …)
• Exit Strategy
  – Important: sustainability and exit strategy—what’s next after the first breakout product?

Visualizations may be useful …
Viability: Business model

- How are you going to make money? How much?
- Which part of the activity chain will you be in?

Raw materials → Manufacturer → Wholesale distributor → Retailer → Consumer

$4 → $6 → $11 → $20
Be aware of different segments of consumers, content of flows and relationships

Be aware of proportions, relationship and timing!
Freemium, free trial, or paid?
Consumers and users are not necessarily the same ...
... and there most probably are more actors than you and the consumer
Viability - Metrics

• Ok, so now you probably have:
  – Product/service idea
  – Conceptual business model
• But how to make a pitch convincing that the $’s work??
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>Revenue Streams</th>
</tr>
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</table>

Fixed costs: Technology
Production and marketing: Customer acquisition, Production, Distribution, ...
Supporting operations: Employee, Rent ...

Revenue model
Gross margin
....
Forecasting Sales Isn’t Easy

- Estimates from customers themselves?
- Commitments from customers?
- History or forecasts in the industry?
- History or forecasts in the narrow market niche where you sell?
- Estimates by experts?

- Also, when do you actually get $ from sales?

What type of data can you get?

- Financials: cost, price, shipping, margin, wages
- Demographics
- Opinion polls
- Expert opinions, market surveys
- …
Viability - Metrics

• Measure as much as you can
  – Question if it’s worth measuring, though
  – Yours vs. benchmarks (if data is available)
  – Seasonality (hr, day, month, qtr, other)

• How effective is:
  – Your product? (Lifetime value to customer/s)
  – Your marketing? (Use of time and $ to acquire them)
  – Your production? (Profit potential)
  – Response time? (Fill order, address complaints)
Financials

• Pro-forma financial statements
  – Projected Income Statement
  – Projected Balance Sheet

• Evaluation of the project (re: milestones measures)
  ◦ Qualitative indicators

• Quantitative indicators
  – Show “good” and “bad” scenarios
  – How much capitals, now and later
Cash Flow (CF) vs Income statement (IS)

• CASH FLOW STATEMENT – keeping the business afloat
  – How your business is financed (don’t run out of cash to pay for electricity …)
    • This include NOT only Profit of Net Income (day to day operations)
    • But also investments (eg. equipment, buildings, ..) and financing (eg. equity, loans, deferred payments, ..)

• INCOME STATEMENT – profitability and sustainability
  – Sales (or revenue, or turnover)
  – Minus cost of good sold
  – Minus operating expenses
  – Minus interest & taxes
  – → Profit (or net income, or earnings)

• Short term: Cash is far more important than profit
  • A profitable business can still fail if suppliers and employees are left unpaid
## CF: How to build the business

<table>
<thead>
<tr>
<th>Cash From Operating Activities</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR4</th>
<th>YR5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>($59)</td>
<td>($44)</td>
<td>($99)</td>
<td>($15)</td>
<td>($217)</td>
<td>$2,271</td>
<td>$3,896</td>
<td>$5,861</td>
<td>$7,840</td>
</tr>
<tr>
<td>Amortization Expenses</td>
<td>$7</td>
<td>$7</td>
<td>$7</td>
<td>$7</td>
<td>$27</td>
<td>$27</td>
<td>$27</td>
<td>$27</td>
<td>$27</td>
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<tr>
<td>Net Cash From Oper. Act.</td>
<td>($52)</td>
<td>($57)</td>
<td>($52)</td>
<td>($8)</td>
<td>($190)</td>
<td>$2,298</td>
<td>$3,923</td>
<td>$5,888</td>
<td>$7,867</td>
</tr>
<tr>
<td>Deferred Salaries</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Investment Capital</td>
<td>$200</td>
<td>$150</td>
<td>$150</td>
<td>$0</td>
<td>$500</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Owner Equity</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Net Cash From Fin. Act.</td>
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<td>$150</td>
<td>$150</td>
<td>$0</td>
<td>$500</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>EPA, PMRA registration</td>
<td>($80)</td>
<td>($20)</td>
<td>($15)</td>
<td>$0</td>
<td>($115)</td>
<td>$0</td>
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<td>Production Equipment</td>
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<td>($20)</td>
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<td>$0</td>
<td>($35)</td>
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<tr>
<td>Production Facilities</td>
<td>$0</td>
<td>($5)</td>
<td>($5)</td>
<td>$0</td>
<td>($10)</td>
<td>$0</td>
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<tr>
<td>Net Cash From Inv. Act.</td>
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<td>($45)</td>
<td>($35)</td>
<td>$0</td>
<td>($160)</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

Free Cash Flow = “Free Cash”

| $68  | $68  | $23  | ($8)  | $150  | $2,298 | $3,923 | $5,888 | $7,867 |
## IS: How the business gives back

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR4</th>
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</thead>
<tbody>
<tr>
<td>Total REVENUES</td>
<td>$0</td>
<td>$0</td>
<td>$25</td>
<td>$228</td>
<td>$253</td>
<td>$4,555</td>
<td>$7,289</td>
<td>$10,022</td>
<td>$12,755</td>
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<tr>
<td>Total COGS</td>
<td>$0</td>
<td>$0</td>
<td>$18</td>
<td>$101</td>
<td>$119</td>
<td>$1,074</td>
<td>$1,718</td>
<td>$2,362</td>
<td>$3,007</td>
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<tr>
<td>Gross Profit</td>
<td>$0</td>
<td>$0</td>
<td>$7</td>
<td>$127</td>
<td>$134</td>
<td>$3,481</td>
<td>$5,571</td>
<td>$7,660</td>
<td>$9,748</td>
</tr>
<tr>
<td>Gross Profit Margin</td>
<td>-</td>
<td>-</td>
<td>28%</td>
<td>56%</td>
<td>53%</td>
<td>76%</td>
<td>76%</td>
<td>76%</td>
<td>76%</td>
</tr>
<tr>
<td>Total Wages &amp; Benefits</td>
<td>$53</td>
<td>$39</td>
<td>$93</td>
<td>$122</td>
<td>$307</td>
<td>$945</td>
<td>$1,411</td>
<td>$1,535</td>
<td>$1,644</td>
</tr>
<tr>
<td>Total Corporate Expenses</td>
<td>$6</td>
<td>$6</td>
<td>$13</td>
<td>$20</td>
<td>$44</td>
<td>$265</td>
<td>$264</td>
<td>$264</td>
<td>$264</td>
</tr>
<tr>
<td>Total EXPENSES</td>
<td>$59</td>
<td>$44</td>
<td>$106</td>
<td>$142</td>
<td>$351</td>
<td>$1,210</td>
<td>$1,675</td>
<td>$1,799</td>
<td>$1,908</td>
</tr>
<tr>
<td>EBITDA</td>
<td>($59)</td>
<td>($44)</td>
<td>($99)</td>
<td>($15)</td>
<td>($217)</td>
<td>$2,271</td>
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<td>$2,298</td>
<td>$3,923</td>
<td>$5,888</td>
<td>$7,867</td>
</tr>
<tr>
<td>Income Taxes (30%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$919</td>
<td>$1,569</td>
<td>$2,355</td>
<td>$3,147</td>
</tr>
<tr>
<td>Net Income</td>
<td>($52)</td>
<td>($37)</td>
<td>($92)</td>
<td>($8)</td>
<td>($190)</td>
<td>$1,379</td>
<td>$2,354</td>
<td>$3,533</td>
<td>$4,720</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>30%</td>
<td>32%</td>
<td>35%</td>
<td>37%</td>
</tr>
<tr>
<td>Net Income Growth Rate</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>71%</td>
<td>50%</td>
<td>34%</td>
</tr>
</tbody>
</table>
**Balance Sheet (BS)**

- **Purpose:**
  - Show level (not flow) of money at end of M/Q/Year

- **Forecast of:**
  - Scorecard of Assets and IOUs
    - Current assets, (depreciated) fixed assets
    - Liabilities:
      - Deferred salaries or payments, Loans
  - Equity:
    - Investors, Founders, Retained earnings
  - Assets = Liabilities + (Shareholder and Owner) Equity
    = Book value

→ BS tells story of **asset accumulation & who owns how much** ($ only, not equity)
→ Tracks your ability to pay salaries and suppliers (never run out of cash!)
## BS: Inventory of capital

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>YR1</th>
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<th>YR3</th>
<th>YR4</th>
<th>YR5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$68</td>
<td>$135</td>
<td>$158</td>
<td>$150</td>
<td>$150</td>
<td>$2,447</td>
<td>$6,370</td>
<td>$12,258</td>
<td>$20,124</td>
</tr>
<tr>
<td><strong>Total Fixed Assets</strong></td>
<td>$73</td>
<td>$112</td>
<td>$140</td>
<td>$133</td>
<td>$133</td>
<td>$107</td>
<td>$80</td>
<td>$53</td>
<td>$27</td>
</tr>
<tr>
<td><strong>Total Acc. Amort.</strong></td>
<td>$7</td>
<td>$13</td>
<td>$20</td>
<td>$27</td>
<td>$27</td>
<td>$53</td>
<td>$80</td>
<td>$107</td>
<td>$133</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$148</td>
<td>$260</td>
<td>$318</td>
<td>$310</td>
<td>$310</td>
<td>$2,607</td>
<td>$6,530</td>
<td>$12,418</td>
<td>$20,284</td>
</tr>
<tr>
<td><strong>Deferred Salaries</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Investment Capital</strong></td>
<td>$200</td>
<td>$350</td>
<td>$500</td>
<td>$500</td>
<td>$500</td>
<td>$500</td>
<td>$500</td>
<td>$500</td>
<td>$500</td>
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<tr>
<td><strong>Owner Equity</strong></td>
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<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Retained Earnings</strong></td>
<td>($)52</td>
<td>($)90</td>
<td>($)182</td>
<td>($)190</td>
<td>($)190</td>
<td>$2,107</td>
<td>$6,030</td>
<td>$11,918</td>
<td>$19,784</td>
</tr>
<tr>
<td><strong>Total Liab &amp; S-H Equity</strong></td>
<td>$148</td>
<td>$260</td>
<td>$318</td>
<td>$310</td>
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<td>$6,530</td>
<td>$12,418</td>
<td>$20,284</td>
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### ASSETS (Investing)

### INVESTORS (Financing)

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<th></th>
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<th>Q3</th>
<th>Q4</th>
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<th>YR3</th>
<th>YR4</th>
<th>YR5</th>
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<td><strong>Retained Earnings</strong></td>
<td>$0</td>
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<td>$190</td>
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<td></td>
</tr>
<tr>
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<td>($190)</td>
<td>$1,379</td>
<td>$2,354</td>
<td>$3,533</td>
<td>$4,720</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>($52)</td>
<td>($90)</td>
<td>($182)</td>
<td>($190)</td>
<td>($190)</td>
<td>$1,188</td>
<td>$3,542</td>
<td>$7,074</td>
<td>$11,794</td>
</tr>
</tbody>
</table>
Break-Even Analysis

- Break-even:
  - Volume of sales until all costs are covered
  - .. including total fixed costs (TFC) & variable costs

- Major weakness in calculating the breakeven lies in determining if a cost is a fixed or variable
  - Salaries: variable over time, not directly linked to production
Reality Check

- Are your margins realistic?
- Are your sales forecasts manageable?
  - Growing >10x in 1 year hardly realistic
- Are your employment forecasts manageable?
  - Growing >10x in 1 year creates weird dynamics
- Are your expenses gradually coming down?
  - Learning to be more efficient

- BE CAREFUL ABOUT ASSUMPTIONS (and modify them over time)
Realism – Knowing your stuff

The management team

- Particularly relevant if you start from scratch: the competences, qualities and complementarities of the team are fundamental to provide a solid ground to the project
  - Who are the persons composing the entrepreneurial team and what competences do they have?
  - What are the key positions? Who is going to be appointed for them?
  - Who will you need to complement your team? Key personnels
  - Key partners
Realism – Knowing your stuff

Action Plan: Schedule, Milestones and Operations

• Present your current status, as well as further steps needed
• Outline an operating plan, with logistics of day to day operations

• Present a realistic schedule of events, their anticipated timing and interrelationships between the critical events necessary to launch and grow the venture
  – Identification of “Credibility Testers”
  – Coordinate schedule, critical events and financing requirements → don’t get ‘stranded’ in the middle
  – Sequencing how you build VALUE
    • Do you have to produce a complete product or bulk adoption to get going? Avoid “Nuclear Fusion”

• **Identify key risks and outline your contingency plans**
Plans are important, but ..

- Now: Pitch, pitch, pitch, pitch, pitch, ... and pitch some more to:
  - reveal assumptions you have not though of
  - get feedback or evidence your idea will work
  - get practice for when you're in the finals or pitching to real investors,
- customers, potential employees, partners, ..
- Then ... summarize the latest state of knowledge in your slide deck and business plan and submit it.
Pitching

Dogbert the Pitchman

Fire up the reality distortion field as soon as I’m introduced.

Our product is nothing but a block of wood, and yet you need three of them.

I am a creative individual who does as he is told.

I can’t feel my arm!
Pitches

- Different audiences and content:
  - Product / Sales pitch
  - Investor
  - Employee
  - Partner

- Different styles and delivery:
  - Business card swap (5-10 seconds)
  - Elevator pitch (<1 minute)
  - 3-minute pitch (lobby, cab ride, between meetings, ..)
  - 10-15 minute pitch (more serious pitchfests)
  - 45-120 minute pitches (boardrooms)

- The more often you try, the better you’ll get.
Peter Farrell pitches

- 3 minutes each
- Judges will be entrepreneurs, maybe others
  - No special concerns
- Invite your mentors!

Main question:
- “Do you have a viable business idea - can you make money?”
- (e.g. at least enough to pay for your time, if non-profit)
Some tips …

• Explain what you do in the first minute
• Always ask yourself, “So what?”
  – Not just product features
  – Impact + example: “For instance …”
• Know your audience
  – What do they want to know from you?
  – Why are they attracted to your organization?
  – Any special issues you should be aware of?
  – What is the background of individuals in audience?
  – How much time do you have to talk?
How to Pitch – PRACTICE!

• Set Expectations: Time, Objectives, Q&A
• One person, like most sales pitches, too (debatable)
• Catalyze Fantasy: Show scalability
• Give and TAKE: questions, notes, advice
• Iterate: Don’t be afraid to start from scratch
• Practice: 20+ times to get rid of um’s and ah’s
Show traction

• Even if you’re still pre-revenue, show
  – You know which milestones and metrics count
  – How well you perform on them
• Some milestones:
  – Proof of concept / prototype / wireframe
  – Patent filing
  – Regulatory approval (FDA, UL/CE/CSA/TÜV, other)
  – Time ..
• To complete code, concept, prototype, production, ..
• Awards and recognition (by third parties)
It is what it is, don’t lie …

• Common for start-ups:
  – Unproven team
  – Unproven market
  – Unproven technology
  – Invisible competitors
  – Limited war chest
  – WHY are you better than the competition?
  – Who (specifically) cares?
Not making the cut

• Runs Off In All Directions
• No Promises At All (target/milestones)
• Unreasonable request: asking too much for too little
• Non Credible Team

• Insufficient Market or failure to Understand The Market
• Non-Credible Technology: too wild vs too mundane, non-protectible
• Non Credible Action Plan: Too Optimistic Vs Not Ambitious Enough
• “Handwaving” potential gaps: Naïve About The Hurdles (e.g. Regulations)
Making the cut

• An Idea Too Good To Ignore
• A Financial Promise Too Good To Turn Down
• A Team Good Enough To Believe In
• An Action Plan That’s Credible
• Focused

• Details That Give Assurance of Insight, Commitment and Follow Through
• Format and Style That Show Passion
• Sanity
“Cosmetics” may matter

- I Can’t Understand It.
- Filled With Market Or Technology-Specific Jargon i.e., WHAT IS THE BUSINESS?
- Naïve Projections
- Sloppy: Misspellings, Poor Grammar, Poor Quality Printing
- Ignores The Basics
- “Forget Marketing, My Technology Is Best”
- Naïve (or Terrible) Writing
• Traction:
  – It should be a good idea
    • Pitch the idea to potential customers and iterate using their feedback!
• Viability:
  – It should be able to make money
    • Pitch the business model to mentors, advisors and iterate using their feedback!
• Realism
  – It should be a convincing pitch (confident, evidence-based, prototypes, mock-ups)
    • Keep pitching (to anyone who will listen). That gives you practice with pitching and gets you more feedback (e.g. "market research") to use as evidence in your plan that your idea is realistic!!
Thank you and Best of luck!