solace

solace.digital

Founder's guide to preparing your VC funding pitch

Few business challenges are more difficult, more energising, more frightening, and more inspiring, all at the same time, than pitching for venture funding to startup a new technology company. This act puts the vision, expertise, ambition, pride, and plans of the founder and their team in the most vulnerable of positions, to be tested, challenged, questioned, and tested again by a venture team that can spot a single problem cell in a 10K cell spreadsheet.

As an emerging company ourselves, we are sharing our perspective, experience, and tangible recommendations to improve the chances of success.

Our UI/UX design services are targeted at technology startups, so we are able to watch this advice “in action” with our clients everyday.

The underlying operating principle of our company - enabling breakthrough performance - should be the underlying principle of every startup funding pitch, in our opinion. In the end, funding will be secured if you can instil confidence that your startup has a good chance of achieving breakthrough performance and creating significant value.

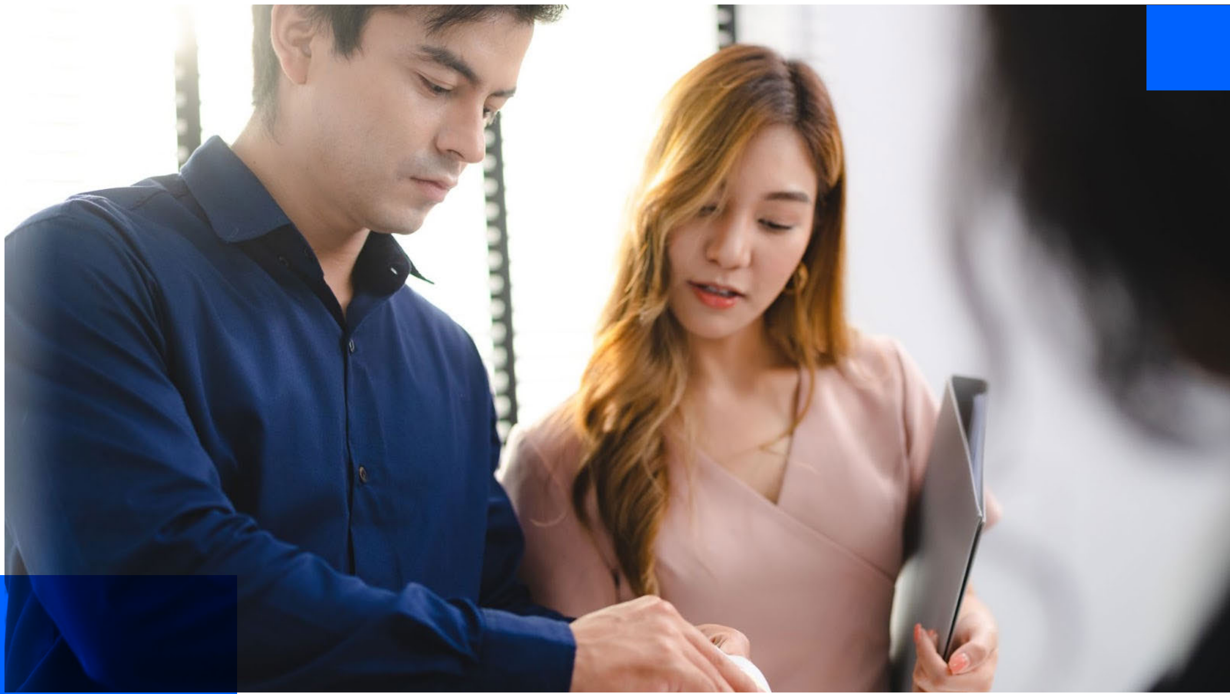
We welcome the opportunity to discuss our guidance in person and share our learning from the high-performance UI/UX design work we’re delivering to some amazing companies.

The reality is that 90% of startups fail. From budgeting apps to legal matchmaking services, businesses across every industry see more closures than billion-dollar success stories.

And a whopping 10% of startups fail before they reach their second year.

Source: HubSpot®

Value Proposition



Our experience is that Value Proposition - the most fundamental pillar of a startup - is often given too little attention. Keeping in mind the customer sentiment that “nothing is easier than what I already know,” the problem your startup aims to solve, the value you intend to create, or the gains you intend to deliver have to be significant, relevant, and clear all at once.

Let’s say your value proposition is an application that enables 30% time savings on an everyday task for a consumer.

While that may sound like a significant gain, you have to consider there will always be a learning curve, a barrier to change, and a first few use cases that may be “clumsy” before the user begins to achieve the gain.

Another aspect of value proposition that is often given too little attention in a funding pitch is disruption. VCs are looking for a relatively fast time to value and initial return on their investment, often three years and sometimes less. That “initial return” is a hoped-for acquisition by another company, another funding round that further scales and accelerates growth of the company, or achievement of a

profitable growth engine by the startup.

From the prior example, a 30% efficiency gain on an existing process or task is not disruption. Enabling this gain may result in a viable, profitable business in the long-term. However, in a majority of cases, especially from our engagement with startups who are actively in the process of securing funding, it takes “disruption” to achieve a level of growth and success in two years that will satisfy the typical VC investor.

Venture money is not long-term money. The idea is to invest in a company's balance sheet and infrastructure until it reaches a sufficient size and credibility so that it can be sold to a corporation or so that the institutional public-equity markets can step in and provide liquidity.

In essence, the venture capitalist buys a stake in an entrepreneur's idea, nurtures it for a short period of time, and then exits with the help of an investment banker.

Source: HubSpot®

This kind of "disruption" is not optimising something that already exists. Instead, it's inventing a new and better way of doing something or enabling an outcome or experience that wasn't possible before. In many cases, the value proposition may indeed be disruptive, in which case it has to be communicated in a way that makes the "disruption" front and centre. For the "30% efficiency gain example," that would be disruptive if the value proposition were as follows:

"We're going to develop a new product that helps consumers do X in a way that wasn't possible before, and by the way, it's also 30% more efficient in terms of time to complete."

Here are our "three must-haves" for the value proposition in your VC funding pitch:

- A solution that is disruptive
- Quantification of the gains that can be made - cost savings, time savings, value creation
- An expression of the value proposition that is compelling but simple

Our advice is not to even start writing a pitch deck until you've been able to conquer these three points convincingly.

Addressable Market

With the value proposition being a combination of conceptual and quantitative pillars, defining the addressable market is almost entirely a quantitative exercise. This is another area where we have seen tech startups fall short in their funding pitch by not providing a tight-enough definition.

Specifically, for a tech startup pitching VCs for funding, the addressable market needs to be the most conservative estimate of the number of people who will likely purchase, subscribe to, or use the first generation of the product, solution, or service.

The VC team wants the highest assurance of a return for their funding investment, so they will want to know worst case for initial sales and revenues to determine if the risk is tolerable.

While that may sound like a significant gain, you have to consider there will always be a learning curve, a barrier to change, and a first few use cases that may be “clumsy” before the user begins to achieve the gain.

Another aspect of value proposition that is often given too little attention in a funding pitch is disruption. VCs are looking for a relatively fast time to value and initial return on their

investment, often three years and sometimes less. That "initial return" is a hoped-for acquisition by another company, another funding round that further scales and accelerates growth of the company, or achievement of a Note that the "addressable market" calculations should include a projection for the first year of product or solution availability, plus a second or possibly even third year. The company should be prepared to explain how ongoing updates to their offering will expand the addressable market as time goes on, along with increased awareness through marketing and outbound sales efforts.

Another critical factor is to know, with as much certainty as possible, the growth rate of the market. If it's expected to be fast-moving space, than the growth from year 1 to 2 and beyond should accelerate even faster than the market - VCs will expect to see that. Growing faster than the market is a critical success factor for startups and you must be able to show, with quality data and defensible projections, that your tech startup can achieve this.

Here are our "three must-haves" for the addressable market section in your VC funding pitch:

1. Define the addressable market with highly detailed, easily defensible data
2. Explain the serviceable or likely addressable market for at least years 1 and 2 of product or solution availability. This should be the most conservative projection. Our rule of thumb is it's incredibly optimistic, and likely naive, to claim you can capture more than 20% of a market in the first year.
3. Be ready to show how you can expand the addressable market over time and grow faster than the market at the same time. Again, this will require highly detailed and defensible projections.

As is the case with the value proposition, we recommend that pitch teams don't ever start writing the pitch deck until they can explain, document, and defend the addressable market with very high confidence.

Target Persona

(Ideal Customer Profile - ICP)

Persona (ICP) definition may be the area that is most often poorly articulated in terms of tech startup diligence. Since much of our work with clients is anchored by the ICP, we frequently see the gaps in this area. It's not a matter of teams not knowing their ICP, but rather not knowing enough detail "below the surface" that will really make the difference in the product or solution design along with sales and marketing execution.

For example, here is a side-by-side comparison of expected vs. "actionable" details about an ICP"

ICP - Expected Details

- Company is promoting a voluntary return to the office
- Company culture is meeting-centric
- Company is growing 10% Y/Y
- Company's industry has recently seen many new competitor entrants

- Business executive
- Age 35 - 50
- College degree
- MBA likely

- Uses a smartphone
- Uses a laptop

- Company is using SAP
- Company is using Salesforce
- Company is using Microsoft 365

Lives in city larger than 1M+ population

ICP - Actionable Details

- Individual commutes ~1 day every two weeks
- Commute time is ~:60
- Individual spends less than :30 per day on email due to meeting commitments
- Company's differentiation is eroding due to aggressive competitors

- VP or CXO
- Manages more than ~10 people
- Spending decision-making authority of $5M+
- Has a finance background and interest

- Apple IOS user with iPhone v >10
- Apple laptop

- Company recently switched to SAP from Oracle
- Company recently upgraded to Salesforce from Hubspot

With the current company less than 2 years

The common difference between the many expected vs. actionable details is what may be thought of as a “trigger” - a reason this ICP may consider and purchase your product or solution. Knowing this about the ICP enables much greater precision in the final design of the product or solution and how to effectively engage a prospect. Consider these examples of how the “actionable details” can be put to use:

- This prospect has significant budget authority and a senior role, so it may be that first targeting one of their direct reports is a better starting point for sales and marketing. They may still be the ICP, but not necessarily the first person to engage in order to land a sale.
- Likewise, this prospect doesn’t have much time for email. It may be that outbound engagement is limited to LinkedIn, or even by phone if it’s possible to track down a valid mobile phone number - it’s clear that an in-house phone number is likely to be ineffective given the prospects spends a majority of their time working from home.
- The commute time may be an opportunity for out of home (OOH) advertising, assuming that’s a fit for the kind of solution on offer. Some of the highest-performing

advertising is OOH because a commuter is often a captive audience and they will see the advertisement with high frequency as they repeat their steps.

- Although the prospect's company is growing, the fact they are facing increased competition will inform potential positioning approaches for the solution. In fact, the growth rate is likely one of the least informative "expected" data points on this ICP. If the solution being promoted could help a company facing increased competition, that's an incredibly useful way to improve precision in targeting prospects.
- Knowing that a company's technical stack involves recent switching can fortell a new technical direction, a business challenge the company is trying to address, or a potential unmet need. These are all factors that can help with being more precise in targeting and engagement.

First, profile the persona or ICP. Go well beyond the "expected attributes" and look for "actionable details" that will do more to inform the product or solution ideation and also the go-to-market.

As noted earlier, here are some of the most effective useful "actionable" attributes for B2B and B2C scenarios:

B2B

- The prospect company has new, strong competitors
- The prospect (ICP) is new to a role
- The prospect company has experienced a dramatic change in year/year growth, in either direction
- The company recently made significant changes to their technical stack
- The company launched a significant new product or set of products, or expanded geographically
- The company has recently gone public or reprivatized
- The company has updated or overhauled its branding
- The company has a new CEO or many leadership team changes

B2C

- The ICP has recently moved into a new home
- The ICP has relocated
- The ICP has changed jobs
- The ICP has changed employers
- The ICP has changed careers
- The ICP is commuting more/less than previously
- The ICP has a new personal status (marriage, children, etc…)
- The ICP has acquired a relatively significant new technology (smart phone, car, appliance)
- The ICP has changed careers
- The ICP has a significant health status change (weight loss, sickness, etc..>)

Map each relevant, actionable attribute to a product or solution design principle or feature, and also a potential sales and marketing play.

From the examples above, this mapping will look something like this:

B2B

Actionable attribute

Company has a significant new competitor (s)

Product implication

Ensure the product will help the prospect (ICP) make fast gains in differentiation to improve their market position

Go-to-market implication

Anchor messaging with the solution or product helping the company to lead the category, as opposed to leading with the capabilities of the product

Make it clear that outbound sales and marketing efforts will have a dedicated, precision focus on companies that are a fit for the solution and are part a highly dynamic category/ industry

B2C

Actionable attribute

ICP is now returning to the office and will have a long, regular commute

Product implication

Ensure the product or solution works well on a mobile device that may have varying connectivity and uncertain battery life

Go-to-market implication

Have a dedicated message around the use of the product or solution in mobile settings

Potentially setup a prospecting campaign with geo-location targeting of this and other ICPs who are facing RTO

Go-to-Market

Developing a credible Go-to-Market (GTM) builds on the prior point about personas (ICP) - specificity and details really matter to the success of your tech startup, and to whether VCs will be willing to make a funding bet on your company. Assuming you have the two key persona (ICP) pillars in place - actionable attributes and example triggers that are an especially good fit for your product or solution, you can now develop a full GTM plan as part of your pitch. We don't recommend investing time in this area unless you are confident in regards to the work you've done on personas (ICP).

In explaining your prospect engagement strategy, an effective answer must be more substantive than "SEM and display advertising or webinars." The starting point has to be connecting what you know about the prospect, especially your understanding of how they learn and consume information, to the GTM strategy. Unless you already have significant resources and funding to do detailed primary research, some assumptions will have to be made, but they should be underpinned by as much data as possible.

For example, you can reach approximately 70% of all senior business decision makers in Western Europe if you were to advertise on a country-based TV news program that airs weekdays between 19:00 and 22:00. (Source: Carat Media®) If your product or solution was targeting this ICP, than it would be fair to say that part of your go-to-market strategy is television advertising on news programs in this time frame. This is the level of specificity your GTM plan must include. Here are our recommendations for the level of specificity required for other, common aspect of a GTM strategy:

SEM

If SEM will play a big role in how you engage prospects, you must be able to explain and defend in some detail that your prospects are known to do proactive search-based research. One way to investigate this can be to look at the Google Trends analysis tool that will show you the search volume for words and phrases. While not officially "intent" data, it's close and can be a useful evidence point to explain an SEM investment.

You can also do a free or inexpensive pilot of the emerging category of "true intent" tools that allow you to "listen" to the specific searches of target companies or personas, depending on the sophistication of the tool you use. This can also be a way to prove that an SEM investment is a smart part of the GTM strategy. Of course if there is primary research you can include, that is the optimal approach.

We strongly recommend that you list the first proposed "words and phrases" that will be included in an SEM campaign, along with the intended level of investment per month, as well as a schedule for how frequently the SEM campaign will be evaluated and

updated. Additionally, you should detail the maximum cost-per-click you are willing to accept as well as the page position, depending on how you will first configure the campaign. Potential funding VCs will know that managing SEM effectively requires a lot of time and effort, so you should also be prepared to explain how your organisation will resource this effort.

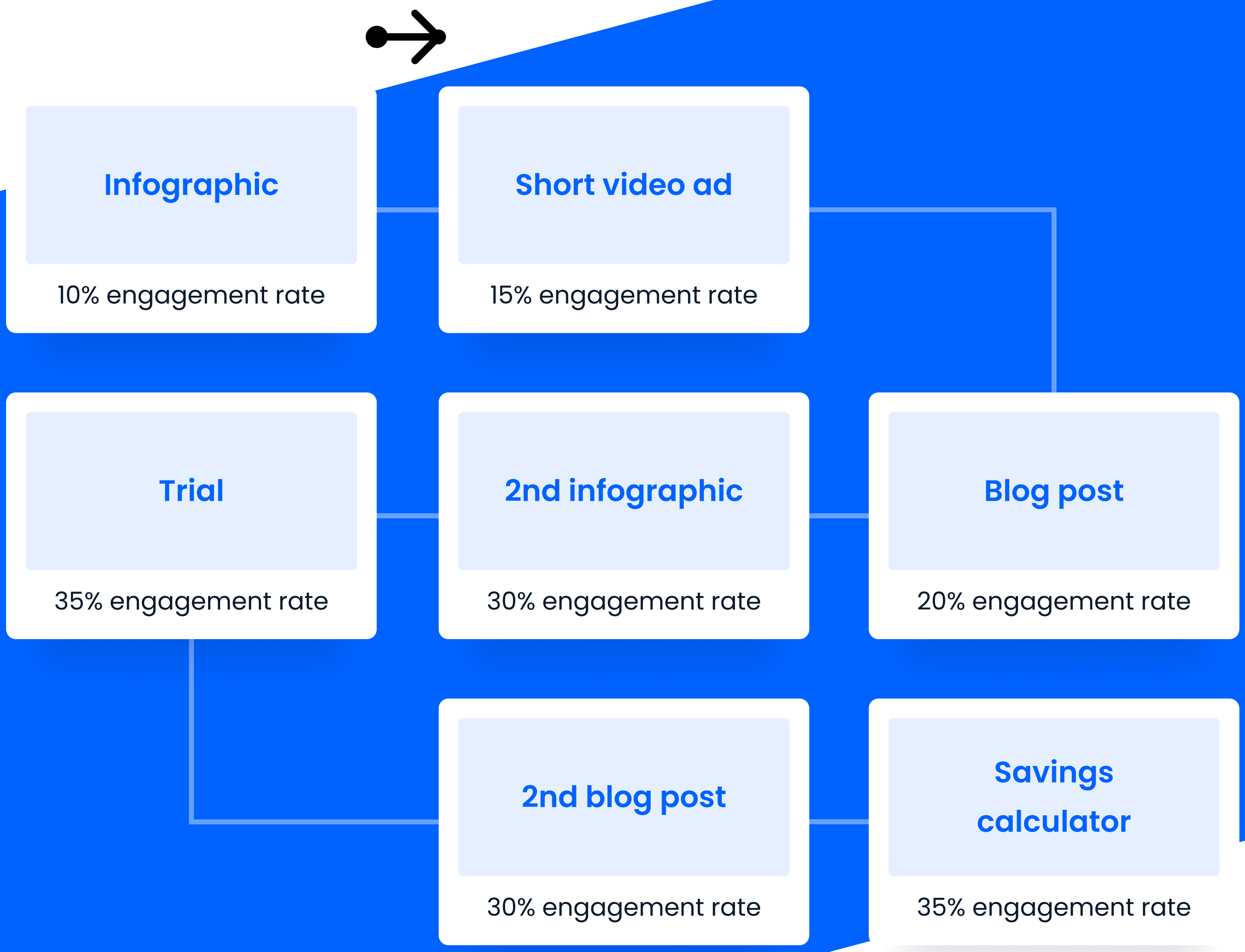
Content

Almost every GTM, whether B2B or B2C, will involve some degree of content development for use in engaging prospects and advancing their interest. This is another area of GTM execution that is informed by a deep understanding of the prospect, so it's important to align the content to be created with the expected interests and behaviors of the ICP. For example, an ICP who is incredibly busy may be less likely to consume a podcast or attend a webinar, but they may appreciate the opportunity to quickly review an infographic.

Our experience is that it generally takes up to 7 impressions to fully provoke interest from a prospect customer, whether B2B or B2C. This means you should plan for as many as 7 discrete content artefacts that are complementary. You should also consider the growing evidence that "visual-first" content outperforms text-based content, which is good news considering that visual-based content can be faster and easier to create. In fact, recent research from The Next Scoop© found that with meaningful images, users are 80% more likely to engage with web content.

Clearly, content targeted to B2B prospects will be more evidentiary in its focus, while B2C content is likely to be more entertaining, although there is no perfect formula for either. What's more important is to map out the ~7 content artefacts and explain how they will work together to support customer engagement and the customer buying journey. Your VC pitch should include an outline of the journey with expected engagement rates and conversion rates at each phase. It should end up looking something like this in your final deck:

Example content map for a
“7-impressions customer journey, B2B”



Call to Action and Offers

One of the most important aspects of any GTM strategy and plan is which steps you will suggest that your prospect customers “actually take.” This “Call to Action” (CTA) can be a trial, a results calculator, speaking with a current customer as a reference, a personalised demonstration, or a highly discounted offering. Given how much strategy and planning work goes into a fully developed GTM strategy, this is sometimes given less consideration even though it can be the most important part of the customer journey. We put significant emphasis on this aspect with all of our client engagement - if you’ve generated interest, you should take every step possible to “close the deal” with enticing content, offers, discounts, or other steps that reinforce the customer interest.

CTAs often vary between B2B and B2C products and solutions, although the “buyer” is still a consumer in both scenarios so there is often good reason to consider “pricing incentives” for a

B2B prospect. In all scenarios, it's important to consider time-bound CTAs as they tend to outperform open-ended CTAs. When possible, tailoring the CTA to the customer - an upgrade from their incumbent solution, solving a known objection, or other personalised approach that is time-bound is likely to be the highest-performing CTA. In fact, Hubspot® recently found that Personalised Calls to Action Convert 202% Better in a May, 2022 research study.

Building the Funding Pitch

Table of contents and process (TOC)

In our experience, prospective funders will care most about the substance of the proposed strategy and how well the founder and team can explain and defend their proposal. The content and organization of the pitch deck, often sent in advance of a pitch meeting, is nearly as important. In fact, many times the deck will have to suffice as the proxy for the founder and team as it's reviewed without the benefit of live explanation.

At a general level, here are our guidelines when you first start putting the deck together:

- Start an outline before creating any slides. This will serve as your "Table of Contents" and should be reviewed and iterated many times before slide production begins
- Do not equate the number of slides with the perceived strength of the pitch
- Cover just a single key point per slide and have sufficient content on the slide to defend the point - break

complex points into multiple slides so the evidence and explanation can be adequately explained and reviewed

- Wherever possible, lead with figures and fact-based charts rather than "word-only" phrases
- Charts are an effective way to communicate or defend a key point, but they should be high production value so they are easy to understand without explanation
- Select a slide template that is simple and that will appear easily on a mobile device - leave thematic imagery to the cover page and section dividers
- Avoid motivational quotes and other inspirational narrative - focus on metrics, facts, and details that will win confidence

Following is our recommended table of contents, which is based on our own experience in pitching VCs for funding as well as that of working with our tech startup clients who are in the process of pitching.

1. **Executive Summary**

   This slide should include the total addressable market, the likely or serviceable addressable market, and the 3 year revenue outlook for the company. Note this is the only slide where covering more than one point is a good idea.

2. **Disruption Strategy**

   This slide explains why the proposed company strategy will be disruptive and therefore enable a product or solution that will have appeal to the target persona (ICP).

3. **Persona/ICP**

   This slide explains the target persona (ICP) and includes significant details about why they would be motivated to engage and subscribe/purchase the product or solution. This is an area in which multiple slides are acceptable.

4. **Go-to-Market Strategy**

   This is a topic that requires multiple slides, including the specific details mentioned earlier.

5. **Proposed Resourcing**

   This topic may be multiple slides that explain the initial proposed leadership team and the specific accomplishments that are relevant to the challenge the startup is proposing to undertake. It's critical to avoid just repeating LinkedIn® profile details or other "salesly" narrative. Instead, be specific and list accomplishments with quantitative details, roles with scope of management and budget authority, and detail the hard business problems each person has previously solved.

   A second part of resourcing is a plan for how the investment will be allocated. This includes headcount to be hired and the related functions, investment in infrastructure such as computer hardware and cloud services, facilities, and other "hard" costs. Finally, this should include any proposed marketing investment for everything from content development to advertising, events, and potential outsourced lead generation services.

   Finally, you should include details on the current or proposed board of directors as well as the executives and experts currently advising the company

6. Product or Solution in Detail

This is where the vision and functionality of the product or solution should be described in-depth. If there is already a working beta, that will be demonstrated during a live pitch meeting, but screen shots or very detailed mockups should be included in the deck if at all possible. In addition, there should be a very specific list of current or planned features that support the disruption that was detailed earlier in the deck.

This topic should also include an engineering roadmap that explains planned milestones and what each new release will include. This is not a place to be "high-level" - named features should be listed and release dates should be an actual date, not a month or quarter.

7. Revenue Map

This topic will require more than one slide as you need to include:

- Revenue, expenditure, and margin/loss projections for three to five years
- "Accounting" view of projected revenue, expenses by quarter for three to five years
- A modelling of potential pricing that is above and below the proposed Go-to-Market model, to show what happens if the market forces a lower price than planned, or there appears to be upside in what the market is willing to pay

8. Benchmarks

This slide explains why the proposed company strategy will be disruptive and therefore enable a product or solution that will have appeal to the target persona (ICP).

Note these all assume a subscription model

- ARR - annual recurring revenue
- ACV - average contract value
- CLTV - customer lifetime value
- NDR - net dollar retention rate
- Magic Number for years 2 and beyond
- Rule of 40 for years 3 and beyond
- EBITDA for years 3 and beyond

6. 90-Day Tactical Plan

In this final section, you should explain how the company is prepared to quickly put any investment to work. Included should be details about:

- How you plan to find and hire staff
- What approach you will take to acquire new infrastructure at the best possible prices and with favourable terms
- The governance process you will apply to ensure funding is well managed and transparently tracked
- The cadence of leadership team, board, and other key meetings and communications
- What is the earliest date at which the company will actually “be in market” in an effective way”
- How does the company propose to include the funder in oversight - board seat, dedicated reviews, weekly updates, etc…