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THE MONEY GAME

Perfecting the Pitch

Venture capitalists offer advice on what they look for—and what turns them off

By TY MCMAHAN

Early in his career as a venture capitalist, Steve Brotman received a knock on his office door and in walked a woman dressed from head to toe in an outrageous green costume. She reached in her bag and served Mr. Brotman a business plan for a company that had “avocado” in its name.

The Journal Report

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“Regardless of whether I was interested, you lost me at hello,” Mr. Brotman, now the managing director of venture-capital fund Greenhill SAVP in New York, says he told

her. “I’m not about to do a deal with a lady dressed like an avocado.”

It takes much more than a gimmick to get the attention of venture capitalists. As a growing number of entrepreneurs compete for a shrinking pool of capital, it’s more important than ever to make a good first impression with an airtight pitch.



Daniel Baxter

Venture-capital investment fell about 50% in the first quarter to \$3.9 billion from \$7.78 billion in the same period a year earlier, according to VentureSource, an industry tracker owned by News Corp., which also owns Dow Jones & Co., publisher of The Wall Street Journal. That was the lowest quarterly total since 1998 and significantly below the \$5.95 billion invested in the fourth quarter of last year.

Even so, investors say capital remains available for promising start-ups. With that in mind, here is a look at what venture capitalists say are the common mistakes made by entrepreneurs making presentations:

Modesty Doesn't Pay

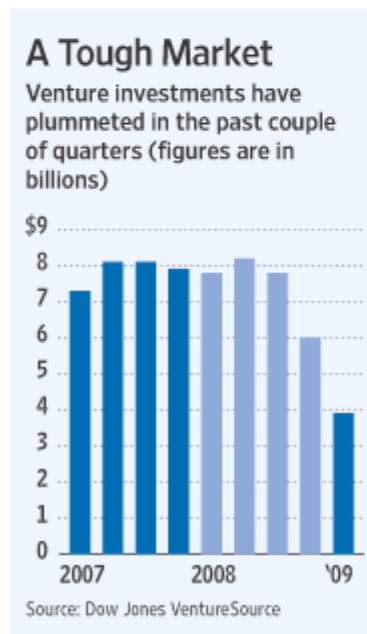
Venture capitalists say that they invest in people, not just ideas. Yet the most common mistake entrepreneurs make when pitching to venture capitalists is failing to present themselves well, says Mr. Brotman. “A pitch is like going on a date,” he says. “A lot of entrepreneurs don’t introduce themselves. They might give you a name and a business card; other times they’ll go straight into the pitch. That’s like going on a first date and saying, ‘Let’s get it on.’”

If an entrepreneur has been successful in the past, they need to say so, says Mr. Brotman, pointing out that modesty could equal a missed opportunity. “Seasoned entrepreneurs often downplay their experience and stuff it in the back of the pitch, and they shouldn’t,” he says. “People buy into other people. They buy their story.”

In addition to introducing themselves, entrepreneurs should introduce the other members of their team and allow them to talk. Venture capitalists say they want to know that they can trust the other people involved in the business.

'Tell It to Mom'

Canaan Partners, a Menlo Park, Calif., firm that invests in technology and health-care companies, says it has endured many bad pitches over the years, including one in which the vice president of sales for a start-up fell asleep just as the chief executive was hitting his stride during a presentation. "The CEO kept blazing through his pitch, acting like it wasn't happening," says Gina Vakili, Canaan's director of marketing.



The firm passed on that deal, but its experience with bad pitches led to the creation of the Entrepreneur Pitch Workbook, essentially a "Dummies" guide to pitching venture capitalists. Among the book's suggestions: Practice so that a pitch will last one hour, including time for questions; prepare a 12- to 20-page slide presentation and bring hard copies; arrive 10 minutes early to set up; and dress business casual, unless you're more comfortable in a suit.

When it comes to the presentation itself, venture capitalists say it should be coherent and focused. Don't dance around questions, especially if they are asked multiple times in different ways. Be thoughtful and willing to explain concerns with the business.

"What's most important is to adequately explain all the assumptions on which the plan [is] based," says Larry Chaityn, New York chapter president of Keiretsu Forum, a

global network of accredited angel investors. "Less is more. We want them to present a wealth of information in very few words."

Presentations should also avoid jargon. "I always say, 'Tell it to your mom,'" says Kylie Sachs, a partner at Ascend Venture Group LLC, a private investment-management firm based in New York. "Explain it like you would explain it to your mother."

Entrepreneurs should assume the investor believes the technology works, venture capitalists say. The presentation should focus on how a solution to a problem makes money, rather than explaining how the science works. "I want to know about the business of the business, not a tech demo for the first hour of the discussion," says Jeanne Sullivan, a general partner at New York-based venture-capital firm StarVest Partners LLC.

Don't Play With the Numbers

Entrepreneurs could hurt their credibility if they overstate the revenue opportunity for their product or service. That is why it is important that entrepreneurs be able to differentiate between market size and the addressable market for their idea. Take a food maker. The firm's

addressable market isn't everyone who eats, but rather the people who eat the specific thing it makes. Saying, "We just need 0.1% of the population of China to be a success" ignores the importance of identifying and describing the target customer, says Ms. Sachs. "That's just math that tells me nothing," she says. "Also, if you tell me your financial projections are conservative, I'll look for a way to prove you wrong. I need you to show me how it scales and becomes profitable."

Ms. Sachs advises against revealing a valuation during the initial pitch. For example, don't tell an investor you are selling 25% of the company for \$4 million, she says. Similarly, avoid negotiating too early. Ms. Vakili, of Canaan Partners, says entrepreneurs who come in and say, "Before we get started, I'd like you to know that we have multiple term sheets on the table" make the firm wonder, "Then why are we meeting? Why are you here having a first meeting if you're at the term-sheet stage with other firms?"

Stay on the Radar

The chance to make an impression doesn't end when you walk out of an investor's office. Mr. Brotman says he is often surprised at how many entrepreneurs disappear from his radar screen after the initial presentation. With the number of requests for meetings that investors receive, just getting an invitation to present your idea means there's genuine interest. Even if they receive a "no" in the first meeting, entrepreneurs should stay in touch with investors. While the investors may not be interested in backing the start-up, they may share it with others who are.

Addressing concerns brought up during an initial meeting is a good way to reconnect with an investor, venture capitalists say, so promptly answer any outstanding questions that came up during the presentation.

Finally, when evaluating offers, entrepreneurs should think beyond who will write them a check. "Take a look at who can give you the best acceleration for your business," says Mr. Chaityn. "Not just money, but industry contacts and high-level connections."

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