2016

Five key ways to pitch your idea to investors

Wei Jing
University of Nebraska at Omaha, wjing@unomaha.edu

Five Key Ways to Pitch your Ideas to Investors

Investors want to understand why and how the startup can generate a return for them and provide comfort that their capital is reasonably safe.

For businesses wanting to commercialize new technology, traditional commercial loans are likely not an option. The Nebraska Business Development Center (NBDC) helps these businesses grow by developing a funding strategy and helping them prepare to pitch to private investors, state grant programs and other funding sources.[1] Investors ask for financial statements and ask for details. So, to be able to explain the "whys" and reflect the healthy condition of the company is very important.

NBDC helps businesses refine their pitches, and that usually has less to do with flaws in their ideas than in the way they present their ideas or insufficient details about how they will commercialize their technology. Presentation of the financials is an opportunity to tell a story. It is an opportunity to express what has been happening in the past, and what will be happening in the future.

Here are five key ways in which a startup can effectively pitch their ideas, focusing specifically on communicating financial information.

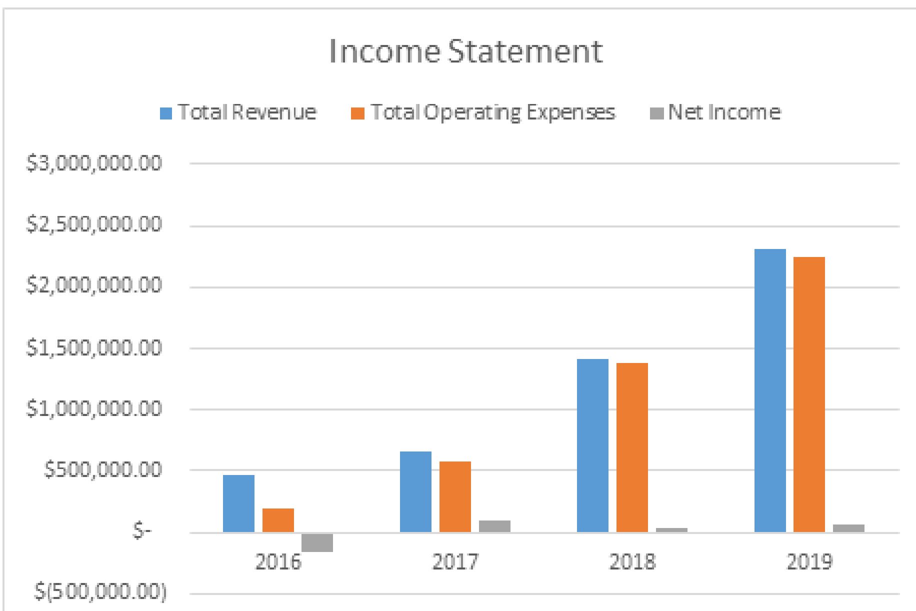
1. **Put yourself in the shoes of your investors**
   It is very important that a startup recognize and learn about investors. Investors do not want to make mistakes on their investments. They look for an experienced and organized team with high performance and leadership qualities. Most investors will research the business and background of the industry.[2] Thinking about the questions they might ask could help identify the main linkages that need explanation. Such questions could include:

   - How do the financial results relate to your identified strategic priorities?
   - How successfully have you mitigated your risks?
   - How do your operational key performance indicators relate to your financial performance?

1 http://nbdc.unomaha.edu/technology-commercialization/funding.cfm
2 https://www.entrepreneur.com/article/234536

2. **Don't overpromise**
   Investors will ask a lot of questions. The key is to be honest. Don't cover up the uncertainty by lying or overpromising an investor. Being able to recognize the company's current limits or unforeseen changes means the entrepreneur can look at the current and realistic state of affairs.

3. **Be brief**
   The easier it is for an external stakeholder to interpret results, the easier it will be for the company to achieve its desires from that stakeholder. Investors want to understand why and how the startup can generate a return for them and provide comfort that their capital is reasonably safe. Furthermore, simply exporting the income statement and balance sheet directly from the accounting software is not enough. Summary narratives, graphs, charts and reports can be very effective as they will enable the stakeholder to better interpret the financials of the business, as opposed to allowing them to develop their own conclusions.[3] Below is an example of the income statement represented in a graph:



4. **Clearly state objectives**
   What is the business trying to accomplish with the external stakeholder? The rate of success will be higher if an entrepreneur can anticipate and address the stakeholder's questions upfront. For banks, clearly communicating why the money is being sought is the best approach. What are the uses of the funds? For instance, oftentimes an expansion won't just require capital to purchase equipment, It may also necessitate additional staff, office space, and supplies.

   The same applies to investors. Can an investor interpret, in a quick read, the high level goal(s) the business is trying to achieve? Also, what are the risks involved for the business? It is best to take objections off the table proactively. If new competition is coming to the market, what is the plan to combat it? If opening a new market, what is the success rate in the market? Laying out potential obstacles tells the stakeholder that the startup has thought about them and gives investors confidence in the business.

3 http://signatureanalytics.com/how-to-effectively-communicate-your-companys-financials-with-external-stakeholders/

5. **Be honest and direct**
   This can often be the toughest of all. No one likes to share bad news. Far too many businesses choose not to communicate at all when this happens. However, when things are not going as well as planned, it may be the most important time to communicate with external stakeholders. Don't hide a bad quarter; explain what happened and what future steps the startup will take to fix it. Again, this demonstrates that the entrepreneur has a handle on the business and that there is no cause for undue worry. Every business will experience some hard times, but having key allies informed and confident in the abilities of the managers will greatly enhance the success of getting an investment.[4]

By following these principles, we do not guarantee that you will get the investment. However, you are well on your way to having a stronger pitch for potential investors that clearly communicates your financial position and potential sales.

About the author

Wei Jing manages the SBIR/STTR program for the state of Nebraska. Jing holds a bachelor's degree in English and a Master's degree in Professional Accountancy from University of Nebraska – Lincoln. Before joining NBDC, Jing worked as an analyst for four years at Invest Nebraska. At the venture capital organization, Jing engaged in subordinated debt and equity investment processes for entrepreneurs and high tech startups. As a business consultant, Jing's experience includes start-up consultation, financing application/process for lenders and private investors, cash flow analysis, business model development and business plan writing, marketing plan development, and financial projections development and analysis.

About the Nebraska Business Development Center

NBDC is a cooperative program of the U.S. Small Business Administration (SBA) and the College of Business Administration at the University of Nebraska at Omaha (UNO). NBDC partners with the University of Nebraska at Kearney, Southeast Community College, Wayne State College, Mid-Plains Community College and Chadron State College to provide consulting and business support services from offices in Omaha, Lincoln, Kearney, Grand Island, North Platte, Wayne, Scottsbluff and Chadron.

NBDC provides a full suite of business services:

- Financial projections, planning and loan packaging
- Export consulting, market research and analysis
- Technology commercialization consulting
- Government sales consulting
- Business valuation and transition planning
- Project management and leadership training
- Process improvement and sustainability training
- Organizational development consulting and customized training
- For more information, nbdc.unomaha.edu

nbdc®
NEBRASKA BUSINESS DEVELOPMENT CENTER

4 http://forecast5analytics.com/blog/how-to-effectively-communicate-your-budget-to-stakeholders/