TechCrunch

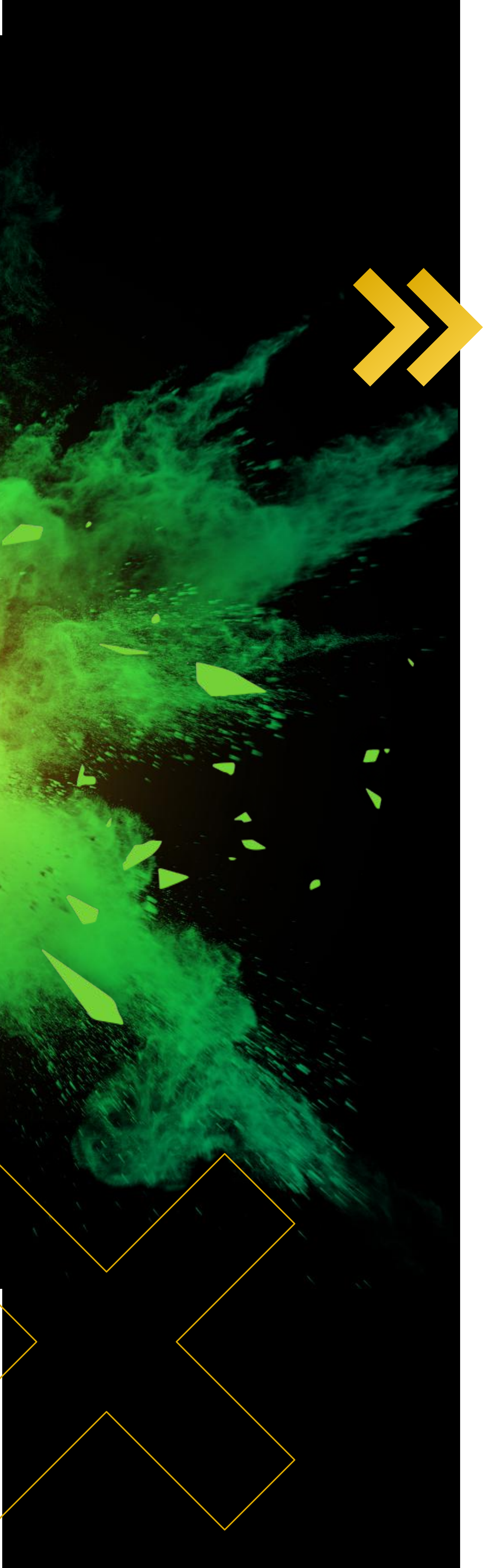
TechCrunch's Guide to Creating VC FOMO

Whether you're in person or online

Delivering an awesome pitch that hits home with potential investors or partners takes patience and practice. And in today's virtual world, making those important connections over a virtual call doesn't come easy for everyone. So, TechCrunch put together a guide for founders looking to clearly communicate to investors over Zoom, a Google Meet, or at virtual events like TC Disrupt.

We know you know that you have a very short period of time to articulate your company's unique selling point. And we know what investors are listening for.

From elevator pitching, to creating memorable pitch decks, this guide has you covered. TechCrunch writers have created a comprehensive pitch toolkit that can benefit any early-stage founder, regardless of industry or vertical.



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Six things venture capitalists are looking for in your pitch

By Lucas Matney

Founders pitch venture capitalists at every available chance, which is why most of them quickly develop the skills required to identify whether someone is offering them an opportunity or wasting their time.

At TechCrunch Early Stage, I chatted with NFX Managing Partner James Currier about how founders can find the right investors and what they need to show to win an investment. Currier has been on both sides of the deal table and founded several startups before devoting himself to early-stage investing, where he has backed companies like Lyft, Houzz and Houseparty.

"One of the ways that investors are similar is that whenever they look at all the companies coming to them, most of them get into a quick 'no' situation, some of them get into the 'maybe' and very few get into the quick 'yes,' " Currier says.

He shared six reasons investors might give a founder the rare and highly coveted "quick yes," an effort to lock down a deal that's either perfect for them or too enticing to pass up. Realizing what exactly investors are seeking can help founders understand how to pitch at the first meeting and what they should leave for follow-ups. For those who couldn't virtually attend

This interview has been lightly edited for clarity.

1. Traction

"So the first thing that they're looking for is traction. Look, even if they don't like you, if they don't like the market, but you're making a ton of money, what are they going to say? Like if it's growing really quickly and you're profitable, you've got high margins and everyone wants to work for you, and there's this buzz around you. What are they going to say? They're gonna have to invest because you've got traction."

2. Team

"The second thing that they're commonly looking for is proof that your team is extraordinary. Now, that proof could come in many forms; it may be that you did a startup before, you worked at Facebook before or you did this very same thing before… and maybe you're a Navy SEAL or maybe you were at the right college or maybe you did some incredible nonprofit but you might have some proof in other areas that shows that you're extraordinary or that you're highly capable."

3. Sector

"The third thing that makes investors say 'yes,' is your sector. You just might be in the hottest sector known to man. So if you were doing credit cards and controlling payments two years ago when Brex was big and Airbase and all these other things, then yeah, sure, the investor is going to throw money at you because you're in this hot sector. So get yourself into the right sectors, find the fast-moving water in the sectors where you're building a business."

4. Timing

"There's timing, the fourth reason that the investor says 'yes.' If there's a moment in time, like the iPhone is introduced and so X thing is suddenly possible, then investors can't not invest here because we don't want to miss out on this trend. We don't want to miss out on the timing of the shift in technology or consumer behavior. Now, it's COVID, so if you're helping with something with COVID in April or May or June of 2020, then you had the right timing."

5. Business type

"The fifth thing they look for is business type. So for instance, at NFX, we look at network effect businesses or we look for marketplace businesses, because we know a ton about them," Currier says. "Other people love enterprise SaaS. Other people love robotics, and subscription revenue or advertising revenue. There's business types that different investors love. And when they see them, they're like, you know, I know so much about that, I've got to be in that sector, I want to invest in that."

6. Referrals and other investors

"Boy, does it de-risk things for investors when they get an intro from somebody they've already invested with in the past and they say, 'This person is great. I've been working with them for a year and a half and they're amazing. I'm going to take my pro rata, I'm going to take as much as I can.' It's really easy to take that meeting. This is important because it de-risks it. It eliminates risks, it eliminates the unknowns… and we have ways of overcoming that to help people who are outside the network do better, but at the same time, you've got to understand that who you're referred by matters a lot, and who your existing investors are matters a lot."

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Lo Toney's product manager playbook for pitch deck success

By Natasha Mascarenhas

The cold email worked – you've landed a meeting with your dream investor.

Hell, you even set aside $40,000 for a pitch deck consultant to make sure your presentation looks suave.

One thing to figure out before you pick out a Zoom background: what information actually goes into those slides?

Lo Toney, founding managing partner at Plexo Capital, has advice for founders looking to raise money: think like a product manager while crafting your pitch deck. Toney has helped shape products at Zynga, Nike and eBay, and currently serves as both a GP and an LP at Plexo Capital, which invests in funds and startups. He's done a ton of pitching and gotten pitched himself, which is why we invited him to TechCrunch Early Stage 2020.

"The framework of product management is very similar to the same playbook used by an early-stage investor and early-stage investors in the absence of an abundance of data," Toney said. "They're really thinking very similar to a product manager to evaluate an opportunity."

Crafting a solid pitch deck is critical to the success of a startup seeking venture capital. Investors, however, spend less than four minutes on average per deck, and some even tell you that you have half that much time (so either talk fast or pick your favorite slides). Even if you have the business to prove that you're the next Stripe, if you butcher the story behind the numbers, you could lose the potential to get the capital you need.

Toney said adopting a product manager mindset helps refine what that story looks and feels like.

"The story is not your product. It's not your company, and it's not the entrepreneur. It's how your customer's world is going to be better when your product has solved their problem," he said, quoting Rick Klau from GV.

In action, Toney broke down the framework into four key slides: problem, market, solution and, of course, team.

Problem

First up, most investors say they want to see the problem you're trying to solve up high. Toney is no different.

"I like to see an entrepreneur describing the desired outcome first, and then what are some of those roadblocks that come along the way to that desired outcome?" he asked. Similar to a product manager, founders could illustrate the different challenges that could come to executing a solution on a specific problem.

But what if your startup isn't trying to fix a problem? What if you think there's an opportunity to have random strangers pick up other random strangers and charge them money?

"Sometimes it's the case that the customer may not realize that there's this great opportunity to do something different," he said. In that case, founders have to show that they have the ability to think through products that customers don't know they want by identifying different elements of their day-to-day life.

"And by the way, that job that determines what is the right product, that's the product manager's job," he said.

Market

Another important slide for any venture capitalist to see is the addressable market. Toney's advice is to unpack the "immediate segment that the entrepreneur is going to obsessively focus on for that initial result." In action, that means pick a target customer persona and run with it.

Start small: Where do they live? What's their job? What's their name? What's their home life?

Then go big: How many of those customers exist? Where do they most likely exist? What are some of the current ways that they're trying to get to the desired outcome? And then what are some of the challenges, right?

"It's really important to be able to really frame how big the market is in terms of the dollars, but also how many of these customer types are actually out there and, if possible, name that persona to be able to really tell a compelling story," he said.

On a similar note of the market, Toney said one thing he never likes to hear is short-term thinking that sounds like "if all else fails, this could be a good acquisition for Google or Facebook."

"Obviously, we all know that the majority of liquidity events that are successful are going to happen through a nice merger or acquisition, but I just think there's something about the mentality of saying that…there's just a visceral reaction that it's just best to avoid it."

Thinking big is how many startups start, not just end. Let's look at some examples in action.

Henrique Dubugras, the co-founder of Brex, told TechCrunch that even in the early stages of fundraising, he and his co-founder Pedro Franceschi had to think long term, beyond its initial pitch of being a credit card for startups.

Courtesy of Brex, here's the startup's opening slide when it was raising its Series A:

Image Credit: Brex

And what that same slide looked like when it raised its Series C extension round:

Image Credit: Brex

“[We had] a specific view of how the fintech ecosystem is going to evolve, and how to create value for businesses as a fintech company,” Dubugras said. “Even in the early stages when we were fundraising, it was important to get these ideas across to investors, and make it super clear what place Brex has in shaping the long term of the finance landscape.”

Victoria Ransom, founder and CEO of Prisma, said “a VC once told us that in every market there are only three major exits, so be sure to be perceived as one of the top three players. At the time there were over a hundred social media marketing companies in our space and the industry was ‘on fire’ so we felt sure that there would be many exits, but sure enough there were just three big ones in the end.”

Solution

In the solution section, Toney said founders must pick one or two critical features that need to be done to prove that the customer will find value in the solution. He advised founders to avoid the laundry list of features that *could* work and stick to the core things needed to succeed.

“What are those one or two things where if the entrepreneur and the team don’t nail those, kind of the rest really doesn’t even matter?” Investors love seeing that the startup has done a ton of customer development front-end work and can then prioritize key features, he noted.

Team

Finally, let’s talk about the team slide. Often, seed startups might only have two co-founders. If that’s the case, Toney says that the product manager mindset means you need to prioritize what key functional roles are missing from your team and include those on the slide too. Extra points if you rank them.

“I just took a pitch yesterday from an ex-product manager and she talked about here are the other folks that need to be brought onto the team, these are the skills that I have and here are the other skills that are important,” he said.

“You know, clearly, that she is the right person to be the CEO, the founder, the initial product manager, and has the leadership to be able to sell the product to be able to inspire and lead the team.”

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Fundraising 101: How to trigger FOMO among VCs

By Natasha Mascarenhas

Let's go beyond the high-level fundraising advice that fills VC blogs. If you have a compelling business and have educated yourself on crafting a pitch deck and getting warm intros to VCs, there are still specific questions about the strategy to follow for your fundraise.

> **"You're trying to make a market for your equity. In order to make a market you need multiple people lining up at the same time."**

How can you make your round "hot" and trigger a fear of missing out (FOMO) among investors? How can you fundraise faster to reduce the distraction it has on running your business?

Unsurprisingly, I've noticed that experienced founders tend to be more systematic in the tactics they employ to raise capital. So I asked several who have raised tens (or hundreds) of millions in VC funding to share specific strategies for raising money on their terms. Here's their advice.

The three high-profile CEOs who agreed to share their specific playbooks requested anonymity so VCs don't know which is theirs. I've nicknamed them Founder A, Founder B, and Founder C.).

You need to create a market for your shares

"You're trying to make a market for your equity. In order to make a market, you need multiple people lining up at the same time."

That advice from Atrium CEO Justin Kan (a co-founder of companies like Twitch and former partner at Y Combinator) was reiterated by all the entrepreneurs I interviewed. Fundraising should be a sprint, not a marathon, otherwise the loss of momentum will make it more difficult.

Naturally, in order to arrange this organized timeline, Kan–who runs a fundraising bootcamp called Atrium Scale–says to "arrange meetings a month beforehand so they all line up tightly for the same period of time."

He also advised that seed stage entrepreneurs set the investment terms for smaller VCs firms who commit and do an initial close with them rather than waiting for a lead firm to set the terms.

The one month fundraise

Founder A is a notable consumer internet CEO in the SF Bay Area who has raised hundreds of millions of dollars across multiple startups, and has refined his fundraising to one month sprints. Here's his playbook:

Week 1: Meet with the 5 VCs you most want to work with. Tell them you're not raising yet but are getting ready to do so and want to get their input as one of the investors you most respect. This avoids putting them in a position of having to say yes or no. Don't give them an opportunity to say "No". They may get excited and say they want to invest (a "Yes") but because you don't get a "No" you leave it as an ongoing conversation. VCs try to keep their options open and typically won't give a hard "No" unless pushed to make a decision.

Week 2: You are now officially fundraising. Meet with the next 10 VCs on your list, two each day (ideally spaced with a few hours between to make any changes to your pitch based on feedback). In the course of these conversations, you can say you're talking to the 5 VCs from last week…they're active conversations. Multiple "No's" upfront from top firms can take the wind out of your sails because it's negative signaling, hence last week's strategy.

Week 3: Same as week 2 with the next 10 VCs. Likely some of these will have reached out to you during Week 2.

Week 4: Same as week 2 with the next 10 VCs. Likely some of these will have reached out to you during Weeks 2 and 3.

The sense that everyone is interested, including your top 5 VCs since they haven't said No, pushes investors to decide more quickly and offer a term sheet. "As soon as someone offers a term sheet," advises Founder A, "go back through everyone you talked to — backward first — and tell them because it puts pressure on them."

What if you do all these meetings and none of the 35 firms offer you a term sheet? Founder A says to recognize that you clearly have a bad pitch. Go out of market for 6 months to figure out the issues with your business and/or pitch, and then try again. (It needs to be definitive that you stopped trying to raise and made significant changes, not seem like you've continued trying to raise for 6 months.)

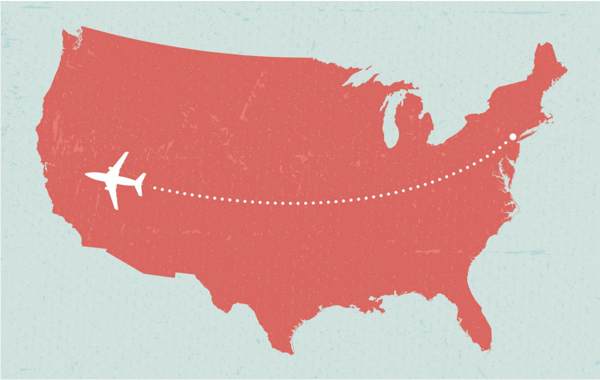
Thursday/Friday meetings

Founder B has raised a substantial amount of funding for their startup in a short time window, with each round being very competitive. Here's what worked for them:

"There were a couple of fundraising hacks:

We focused on a two-week period and set all the meetings for Thursday and Friday. From 7am into the evening, back-to-back pitches at all the firms in one area then the next area. That's because partner meetings are on Mondays, so the Thursday and Friday conversations would lead to pitching the whole partnership the following Monday. We had a 24-hour rule: if we didn't hear back from a fund in 24 hours, we crossed them off the list.

The first week we were still in stealth so the VCs felt they were seeing something early. Then after that first set of partner meetings, we released the story in the press. Now the whole Valley knew about us, and that next Thursday and Friday were insane. When everybody suddenly knows about the startup, it puts pressure on the VCs you've been talking to and creates FOMO."



The bicoastal month

An NYC-based CEO who has raised well over $100M — and who I'll nickname Founder C — has their own one month routine for bicoastal fundraising.

Weeks One and Two: Do all your first meetings with VCs, starting with a week in NYC then a week in SF. Don't start with your top choice firms since you want to warm up and test the pitch, but also don't leave them to the end because you'll be tired by then.

Weeks Three and Four: Schedule your second round of meetings for these two weeks, again starting in NYC then flying to SF. Use the logistics of your limited time in SF as a deadline for additional meetings investors there might want and a deadline to at least verbally offer a term sheet.

Founder B reiterated the importance of keeping all investor conversations progressing at the same pace. If a certain firm becomes eager to invest during the first three weeks, they won't want you to continue your full process (because they want to limit the competition).

You should define terms on which you would accept an investment immediately and shut down the rest of your fundraise… it could be a premium on valuation, a larger investment size, the VC agreeing to no board seat, etc. Otherwise, continue your process through the full month.

According to this CEO, Sequoia and Benchmark are the best at throwing entrepreneurs off their process in order to get ahead of the competition. Sequoia will typically arrange meetings for the morning so they can invite you back for a second meeting with more partners that same afternoon; Benchmark's partners are quick to travel to wherever you are in the world and sell you on working together (with a term sheet at the ready).

Conversely, Founder C also said "When there's doubt there's no doubt….when an investor is taking a long time to get back to you, they're not investing…accept it." The same goes for VCs who respond that they are interested but don't lead rounds so need to wait for a lead to commit before they can commit. In both scenarios, recognize the "No" and move on.

Early relationship building

Particularly for Series A and later rounds, Pilot CEO Waseem Daher (who previously founded and sold Ksplice and Zulip) recommends "having coffee with people you want to raise from 6 months before you plan to raise. Build a rapport and establish a track record of credibility by executing as you promised." (Founder C emphasized the value of this as well.)

Daher also noted that the best time to raise money is when you don't need to. If an investor is keen to invest when you do these informational meetings, you should reiterate that you're not raising now and don't need to raise *but* you could be open to doing a deal now if the terms give your team credit for progress that's still to be made over the coming months. Mentioning your openness to that scenario can cause them to pre-empt the next round.

Organize your pitch better

One high-level point that came up repeatedly in these conversations: most founders don't spend enough time crafting the narrative of their company and practicing how to pitch it in different circumstances. "Narrative is super important and underrated." noted Justin Kan, "People buy into stories. Practice and refine your narrative."

A serial entrepreneur who has gone through Y Combinator reiterated the advice he says YC gives founders: you need to prepare multiple pitches in order to fit the range of contexts in which you'll meet investors. Specifically, a deck for in-depth 45-60 minute meetings, a short deck for 15-minute meetings, a one-minute pitch, and a ten-second description.

Founder C also argued that creating different pitch materials and knowing when to use them is important. This is what they create ahead of their fundraises:

- **A Pre-Meeting Deck.** This is a 5-6 slide deck giving the overview of your company and your team. It's for sending to VCs ahead of your first meeting.

- **A Meeting Deck.** This is 10-15 slides with limited text that help you make your full pitch while in the room with VCs. Accompanying it is an Appendix of another 40 or more slides, each specifically designed to answer a certain follow-up question.

- **A Post-Meeting Deck.** This deck is to be shared with VCs after the meeting, using a unique Docsend link to track if they are sharing it. It includes versions of the core 10-15 slides from the Meeting deck but with more text to make the points since there's no speaker accompanying it. The Appendix slides do not get shared with the VCs.

- **A Memo.** This 5-page outline of the company is like a "mini, mini S-1", a reference to the Form S-1 that companies file when going public. It's to be shared within a VC firm ahead of the founder's presentation at a Partner Meeting (a meeting of all the firm's partners).

- **A Data Guide.** For more developed startups who share a "data room" of spreadsheets and other documentation with investors, this document guides investors on how to read any spreadsheets, on how to understand certain metrics, etc. "We pre-chew the food for them,"

Founder C practices their meeting pitch with close friends who are or were VCs and makes an appendix slide for every one of their follow-up questions. Having a slide to respond to any question an investor has impresses investors by showing the depth of their analysis of their business.

Research each VC's Style

Another recurring piece of advice in these conversations is to ask around to find out each VCs' personality and approach to investing. In particular, whether they tend to focus more on evaluating the team or the business.

You need to craft separate pitches to match their perspective. If the investor has a specific thesis then they are likely to pick apart the details of the business more than an investor who is generalist and more reactive in deal sourcing.

You're not just being judged on your startup

Founder A noted that, consciously or subconsciously, big VCs are also evaluating the strength of your network for deal sourcing. That is, the extent to which you have close relationships with other top-notch entrepreneurs and the likelihood you will refer them to the firm as well. It's a secondary factor but still a factor.

The money is already yours

"Because of their fund structure managing other people's money and raising new funds every 2-3 years," Founder A told me, **"the VCs have to deploy their money. The money is already mine, they're just looking for a reason to not give it to me. The VCs need you more than you need them.** Viewing the dynamic this way can be very powerful."