How does a startup communicate with potential investors?

The purpose of this article is to outline the various types of messages and information a startup may communicate with potential investors.

Communications with potential investors is based on the information pyramid.
The information pyramid outlines the varying types and quantities of information the startup communicates to potential investors. The top of the pyramid has limited information, with each succeeding layer having more. A startup has a plan and process for managing this information pyramid with potential investors. The approach varies depending upon the stage of the startup e.g., a founder dealing with friends and family is different from a billion-dollar IPO.

The information pyramid has eight layers:

Layer 1: The one sentence pitch
"My company (company name) Is developing (a defined offering) to help (a target audience) (solve a problem) (with secret sauce)."
The one sentence pitch is further described in this link to the Founder Institute:
https://fi.co/madlibs

Layer 2: The elevator pitch
This 20-30 second summary will enable investors to decide whether to learn more about the CEO and the startup. The investor decision is based on:
1) The key words include: the CEO's name, company, solution, target customer, the problem/need being solved, and suggested next steps.
2) How the CEO speaks e.g., does the founder immediately start a one-way broadcast vs first learning about the investor, tone of voice, body language, etc.?

If the investor doesn't like the founder, chances are there are no next steps.

Layer 3: The pitch deck which supports an oral presentation
This pitch deck is designed to support the oral presentation by CEO to investors. There are lots of graphics and images, with limited detailed information. This deck is not designed to be read as a standalone document.

Layer 4: The executive summary
The executive summary is a 1-2 page document designed to be read as a standalone document. This summary contains a broad range of information including: the target customer; customer segments; the customer problem; the solution; business model; sales & marketing strategy; competitors; competitive advantage; financials, etc.

The CEO must clearly, simply, and briefly communicate the most critical points, which will result in an investor wanting to meet and learn more.

MaRS has a document which outlines the creation of an executive summary:
https://learn.marsdd.com/wp-content/uploads/2010/12/The-Business-Plan-Executive-Summary-WorkbookGuide.pdf

The Gust website provides a structure for creating an executive summary. Gust is an information sharing platform which connects accelerators and angel investor groups with startups. The website also has an automated tool to analyze the executive summary. .
www.gust.com

Layer 5: The Oral presentation and standalone pitch deck
The oral presentation conveys far more information than the Layer 2 pitch deck. The CEO also has the challenge of building relationships with the investors. During the Layer 4 presentation potential investors are considering: how the founder communicates, their confidence, how questions are answered, etc. Investors are thinking things such as: Do I want to work with the CEO? Do I trust the CEO? Does the CEO have a deep understanding of the customers, their problems, and the startup's solution?

U.S. research shows that investors will spend an average of 3 minutes and 44 seconds reading a pitch deck that has been sent to them. The deck should be between 10 and 20 pages. The startup CEO has only a few minutes of reading time to generate interest so that the investor wants to have a meeting to learn more.

Layer 6: The Business model canvas
The business model canvas is the story of who your customer is, why they buy from you, and how you make a profit. The canvas consists of both narrative text and numbers, with assumptions and facts. On day 1, the canvas may be entirely assumptions - the canvas evolves rapidly as the startup validates or invalidates assumptions. One page may be enough for the canvas.

The canvas has nine components:
Customer segments; customer value proposition; customer relationships; channels; key partners; key resources; key activities; cost structure; and revenue streams.

Further information on the business model canvas is available at:
http://koorandassociates.org/tools/what-is-a-business-model/

Layer 7: The business plan
The business plan includes details on how the company will be built. A critical part, from day 1, is the monthly 24-month cash flow forecast, with key milestones. The value of the forecast is ensuring that the startup does not run out of cash. Many startups underestimate both when revenues appear, and when investors provide capital.

The business plan outlines how the business model canvas will be created, and where the limited resources will be deployed. The CEO must decide which are must-dos vs nice-to-dos, and what is good enough.

MaRS has a template for a business plan:
https://learn.marsdd.com/article/are-business-plans-for-raising-money/

Layer 8: The data room
The data room contains the documents required by investors for their due diligence. The National Angel Capital Organization has an example of the contents of an online data room:
https://www.nacocanada.com/cpages/common-docs
A later stage startup will require more information in the data room.

Monthly communications with potential investors
The primary focus of many investors is customers and customer engagement. The question in the investors' minds is: are there a large number of potential customers that would need to buy a solution. If there aren't customers with a problem they are willing to pay solve, there is no viable startup.

The purpose of monthly communications with potential investors is to generate interest so that the investor wants to meet again. A startup with an ever-growing set of customers generates this interest. The monthly communications do not and must not answer every possible investor question. Investors will be getting many of these communications and have limited time. They may well be reading the update on their phone.

The monthly update has historical customer engagement growth, the milestone(s) achieved in the past month and the milestone(s) for the next month. This enables investors to determine if you accomplish what you say you will accomplish. An investor red flag is a CEO not achieving what the CEO said they would in the next month.

Customer engagement at the pre-revenue stage may include:
1) The number of potential customer interviews (these are not sales calls). An investor red flag is not interviewing customers to validate that they have a problem they are willing to pay to solve, and that there are a large number of these customers.
2) Potential customer survey results.
3) Website metrics such as number of people reading specific content.
4) Number of potential customers following your blog, signed up for your newsletter, etc.
5) Letters-of-intent from potential customers.
6) Numbers of potential customers and users in your pilots.

At the revenue stage with a minimum viable product, the key metrics include:
1) The number of cash paying customers.
2) Customer churn.
3) Customer retention.
4) Net promoter score. An investor red flag is if the current customers would not recommend the company. One investor said they look for startups where the customers are "foaming at the mouth" in enthusiasm for the startup.

This monthly communications to potential investors contains a small subset of the information going out to existing investors. Send these emails the same day and time each month.

Potential investors have other ways to learn about your startup
The communications the startup is doing with other startup ecosystem members may also end up with potential investors. These types of communications include: advisor and advisory board updates, board of directors updates, customer and supplier updates, employee updates, website updates, press releases, presentations at seminars and conferences, updates on social media, etc.

The startup ecosystem members may be doing their own communications. For example, employees posting comments on Glassdoor.

Your next steps
1) From day 1, start to organize your information in the pyramid.
2) The information and messages will be in different layers of your pyramid. Determine how you will keep your information and messages in sync.
3) You will be communicating with different members of your ecosystem. Determine how you will keep your information and messages in sync.
4) To minimize work and minimize confusion in your ecosystem, seek to re-use information and messages rather than creating content from scratch.

Further reading
"Finding new investors" http://koorandassociates.org/points-of-view/selling-a-company-or-raising-capital/finding-new-investors/

