Five Worst Mistakes Entrepreneurs Make When Pitching Angel Investors

Here's a look at the biggest blunders and how to avoid them.

By Jason Fell | August 15, 2011 | 0

An effective elevator pitch can be crucial for entrepreneurs trying to secure funding from angel investors. The goal of the pitch -- written or delivered face-to-face -- is to briefly share the "who, what, where, when, why and how" of your business, while piquing an investor's interest. The tricky part is cramming all of that into one explanation that, hypothetically, should be delivered in the time span of an elevator ride.

"The pitch has to grab me quickly," says Paul Silva, manager of Springfield, Mass.-based angel group River Valley Investors. "For instance, with written pitch applications, we read the first few sentences and then toss half to two thirds of them away."

The best pitches, he says, describe the market the business is in, explain what problem it solves and demonstrate a track record. The worst ones fail for countless reasons.

Here are five of the worst elevator-pitch mistakes entrepreneurs make -- and how to avoid them.

Mistake No. 1: You don't explain what problem your business solves.

Some entrepreneurs spend too much time talking about how his or her product or service works and not enough time explaining what problem it solves, says William C. De Temple, founder of investor group Maximize Angel Investments Orlando Inc. "People buy solutions to problems," he says. "Don't tell me about how your lawn fertilizer works. Tell me about my lawn."

The Fix: Share why customers will buy your product or service.

"If you don't understand or can't explain what problem you're solving and why customers want to give you money, then we're probably never going to want to invest in your company," says Kyle Harris, a managing director at New York City-based angel fund Liquidity Works. Harris poses three questions to startups that you should be able to answer in your business: Who's your best customer? How much money do they make from buying your product? And, how much money will you make from selling it?

Video: How to Find an Angel Investor

http://www.entrepreneur.com/article/220141#ooid=BoZm5wMjpL-TjLExIjaK_uIvoxkzq4U8

Mistake No. 2: You offer too many facts and numbers.

Entrepreneurs often use statistics to help explain their business. While some figures -- such as your sales and revenue -- are important to establish a track record, don't go overboard, Silva warns. Leave out the "step-by-step numerical proof of your market size," he says. "Be compelling. Save the reams of facts for later."

The Fix: Tell a story.

To capture an investor's full attention, explain your business by telling a story. Silva suggests using personal examples about how your service or product has solved a problem in your own life. Or, put the investor into your story. "If you're selling a product for people who are blind, don't start off talking about the difficulties blind people face. Instead, say something like, 'Imagine if you or a loved one were to go blind tomorrow…'" Silva says.

Mistake No. 3: You tout sales forecasts.

Early-stage sales projections often don't carry weight with investors because they aren't supported by actual sales history, De Temple says. As businesses grow, revenue streams, prices and even entire markets can change, rendering preliminary forecasts useless.

The Fix: Focus on the benefit your business offers customers.

To help make up for the fact that you might not have a long sales record, De Temple says, it's better to explain the benefits the business will provide customers and how the company is different from the competition.

"Answering services companies have been around for centuries, but if yours, for example, uses technology to deliver messages immediately without the client having to call in and pick up messages, that solves a problem and has potential to create excellent revenue and profit," he says. "That's what's attractive to investors."

Mistake No. 4: You're too attached to your business plan.

For some investors, it's a red flag when entrepreneurs aren't willing to work outside the protocol outlined in their business plans, Harris says. "Say for instance you have a device that monitors electricity and, according to your business plan, you sell that device to customers for a fixed price," he says. "But when a customer wants to lease the device instead of owning it, and you tell them you can't do that, that might be a problem for an investor."

The Fix: Embrace new revenue opportunities.

If there's a new way to consider packaging or selling a service, a "true entrepreneur," Harris says, will seize the opportunity to make money. "Being flexible and willing to accommodate customers when they want your service in a slightly different way than you already offer is good," he says. "The goal should be to make your product as sellable as possible."

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Mistake No. 5: You discuss ownership stakes.

While it might seem natural to explain how much ownership you're willing to offer investors, don't do it in the initial pitch, warns Silva. "It is like the sticker price on a car," he says. "If it's too high, you don't even talk to the salesman. You just walk off the lot."

The Fix: Save it for the follow-up.

Details about who gets what after an investment generally come up after an investor has finished researching your company. If an investor asks about ownership terms early on, Silva recommends you simply say you're "flexible." "Remember, your goal in the pitch is to build a relationship with the investor," he says. "Get them to fall in love with your idea."