

65 Questions

Venture Capitalists Will Ask Start-Ups

By Richard D. Harroch

Entrepreneurs need to be prepared in pitching their start-up companies to a venture capitalist by anticipating the questions they will receive. The failure to have thoughtful and reasonable answers to VC questions will decrease the likelihood of the company getting funded. The following is a list of key questions the entrepreneur should answer in the pitch or anticipate getting asked:

Overview

At the beginning of an investor pitch, the venture capitalists will want a clear and concise overview of what the company does, why it should be interesting, and why it would eventually lead to a large exit. So, expect that you will need to cover the following:

- What does the company do?
- What is unique about the company?
- What big problem does it solve?
- How big is the market opportunity?
- Where are you headquartered?
- How big can the company get?

Market

You will need to paint a clear picture that the market opportunity is meaningfully large and growing, so you will receive questions like:

- What is the actual addressable market?
- What percentage of the market do you plan to get over what period of time?
- How did you arrive at the sales of your industry and its growth rate?
- Why does your company have high growth potential?

Founders & Team

For many investors, the management team is the most important element in deciding whether or not to invest. Entrepreneurs must show they are passionate, dedicated, and have relevant domain experience. So anticipate these questions:

- Who are the founders and key team members?
- What relevant domain experience does the team have?

- What key additions to the team are needed in the short term?
- Why is the team uniquely capable to execute the company's business plan?
- How many employees do you have?
- What motivates the founders?
- How do you plan to scale the team in the next 12 months?

Products and Services

The entrepreneur must clearly articulate what the company's product or service consists of and why it is unique, so expect to get the following questions:

- Why do users care about your product or service?
- What are the major product milestones?
- What are the key differentiated features of your product or service?
- What have you learned from early versions of the product or service?
- Provide a demonstration of the product or service.
- What are the two or three key features you plan to add?

Competition

The company's competitors will always be an issue and any entrepreneur who responds that "we do not have competitors" will have credibility problems. So make sure to anticipate the following questions:

- Who are the company's competitors?
- What gives your company a competitive advantage?
- What advantages does your competition have over you?
- Compared to your competition, how do you compete with respect to price, features, and performance?
- What are the barriers to entry?

Marketing and Customer Acquisition

The investors want to get a sense of how the company plans to market itself, the cost of acquiring a customer, and the long term value of a customer. So, be prepared for the following:

- How does the company market or plan to market its products or services?
- What is the company's PR strategy?
- What is the company's social media strategy?
- What is the cost of a customer acquisition?
- What is the projected lifetime value of a customer?
- What advertising will you be doing?
- What is the typical sales cycle between initial customer contact and closing of a sale?

Traction

A company that has gotten early traction in some way will be viewed positively, so be prepared to answer these questions:

- What early traction has the company gotten (sales, traffic to the company's web site, app downloads, etc., as relevant).
- How can the early traction be accelerated?
- What has been the principal reasons for the early traction?

Risks

There inevitably are risks in any business plan, so plan to answer thoughtfully these questions:

- What do you see are the principal risks to the business?
- What legal risks do you have?
- Do you have any regulatory risks?
- Are there any product liability risks?

End Game

The, investors will want to get a sense of when and how they will be able to exit and receive a return on their investment, so they will ask:

- What is the likely exit – IPO or M&A?
- When do you see the exit happening?
- Who will be the likely acquirers?
- How will valuation of an exit be determined given market comparables?

Intellectual Property

For many companies, their intellectual property will be a key to success. The investors will pay particular attention to the answers to these questions:

- What key intellectual property does the company have (patents, patents pending, copyrights, trade secrets, trademarks, domain names)?
- What comfort do you have that the company's intellectual property does not violate the rights of a third party?
- How was the company's intellectual property developed?
- Would any prior employers of a team member have a potential claim to the company's intellectual property?

Financials

Any investor will spend time understanding the company's current financial situation and proposed future burn rate. Be well prepared for these questions:

- What are the company's three year projections?
- What are the key assumptions underlying your projections?
- How much equity and debt has the company raised; what is the capitalization structure?
- What future equity or debt financing will be necessary?
- How much of a stock option pool is being set aside for employees?
- When will the company get to profitability?
- How much burn will occur until the company gets to profitability?
- What are your unit economics?
- What are the factors that limit faster growth?
- What are the key metrics that the management team focuses on?

Financing Round

The investors will want to get a clear picture of how much is being raised in the financing round and related information as follows:

- How much is being raised in this round?
- What is the company's desired pre-money valuation?
- Will existing investors participate in the round?
- What is the planned use of proceeds from this round?
- What milestones will the financing get you to?