Business Insights

Harvard Business School Online's Business Insights Blog provides the career insights you need to achieve your goals and gain confidence in your business skills.

+ TOPICS

+ COURSES

HOW TO EFFECTIVELY PITCH A BUSINESS IDEA

SUBMIT

RSS feed

27 AUG 2020

Lauren Landry | Staff

Entrepreneurship & Innovation, Entrepreneurship Essentials

Email Print Share

You've identified an underserved need and validated your startup idea. Now it's time to talk about your business—to potential clients, prospective customers, and future investors. Yet, how do you effectively communicate the promise of your idea and its possible impact on the market?

Pitching a business idea is one of the most nerve-wracking parts of any entrepreneur's journey. It's what stands in the way between your vision and the financing needed to turn that vision into reality. Although daunting, there are steps you can take to ensure a greater chance of success.

WHAT MAKES A GREAT PITCH?

To make a successful pitch, entrepreneurs must exhibit several characteristics to convince investors to fund their innovative ideas.

Every entrepreneur needs an intricate understanding of their idea, growth strategy, and overall business plan. This differentiates your business concept from others, as it solidifies the steps needed to make it a reality. The perfect pitch will show investors your proof of concept and instill confidence that they can expect a return on investment.

Displaying approachable and confident body language during your pitch greatly impacts whether investors think your idea is worthwhile. This requires communicating your startup idea with conviction for others to understand its value.

HOW TO PITCH A BUSINESS IDEA

1. Know Who You're Pitching

Some entrepreneurs try to get in front of every investor, despite their industry expertise or firm's investment stage. You need to consider that, when you accept an investment, it's about more than money; you enter into a partnership. You must perform your due diligence and research potential investors before making your pitch.

When researching, ask yourself:

- ***What industries do they invest in?*** Several firms focus on specific sectors. For example, Rethink Education is a venture capital fund that invests in early- and growth-stage education technology startups, while Blockchain Capital is dedicated to financing companies innovating in the crypto market. Knowing the types of companies the firm invests in can help you tailor your pitch and zero in on their presumed priorities.
- ***What stage do they invest in?*** If you're in the earliest stages of business development, you won't receive growth equity, which is reserved for

mature companies that need capital to expand operations, enter a new market, or acquire another business. Before making your pitch, you should have a rough estimate of the money and resources you need to launch, and then align yourself with investors who can help at that particular stage.
- ***What's the investor's track record?*** Dig deeper into the investor's experience and investment history to determine the types of companies they typically finance, the background knowledge they might already have, and whether your personalities will mesh. This information will enable you to modify your pitch and determine if this is the right person or fund to partner with.

"The best venture capitalists become trusted partners and advisors to the founders and team," says Harvard Business School Professor William Sahlman in the online course Entrepreneurship Essentials. "They help recruit key employees. They introduce the company to potential customers. They help raise subsequent rounds of capital. In some cases, they signal that the firm they've backed is a winner, which helps make that assertion true."

Given the benefits and high stakes, the more you know going into a pitch, the better.

2. Consider How You're Presenting Yourself, Not Simply Your Idea

Although your ideas and skills matter, your personality is equally as important. According to research published in the *Harvard Business Review*, venture capitalists' interest in a startup "was driven less by judgments that the founder was competent than by perceptions about character and trustworthiness."

Investors also want to know they're entering into a partnership with the right people. Jennifer Fonstad, co-founder of Aspect Ventures, acknowledges in Entrepreneurship Essentials that her investment firm "thinks about team and team dynamics as being very critical." Investors want to know whether the founders have worked together before, if your startup's early hires have complementary skill sets, and whether you'll be flexible, open-minded, and willing to embrace different perspectives.

Think about this as you prepare your pitch. If investors poke holes in your idea, will you get defensive? When they ask for financial projections, will you exaggerate the numbers? Hopefully, your answers are "No"—firms want to partner with founders they can trust who are open to guidance and mentorship—but if you're second-guessing your reactions, consider what you might be asked and practice your responses.

As Sahlman reinforces in Entrepreneurship Essentials: "Most experienced investors look at the people first and the opportunity second. Even when a team is young and inexperienced, an investor depends on them to make the right decisions."

3. Tell a Story

When describing your business idea, zero in on the problem you're addressing and how you're solving it better than the competition. You could do this by presenting a real-life scenario in which you describe the pain point a current or prospective customer faced and how your product or service fixed the issue. This can help engage investors on a personal level and inspire them to see your idea's potential.

By complementing your spreadsheets and charts with a compelling story, you can paint a fuller picture of your startup's future and more effectively highlight the opportunity in the market.

4. Cover the Details

While it’s important to set the stage, you also need to cover the specifics. In your pitch deck, concisely define your value proposition and share a memorable tagline for investors to leave the meeting with. From there, convey the opportunity and detail:

- The size of the market
- Your plan to attract and retain customers
- How you can create barriers to competition
- Whether you can run quick, inexpensive tests to determine product-market fit
- Your plan to monetize the business and make revenue
- The amount of capital investment required

“In general, investors are trying to determine how entrepreneurs think about the opportunity rather than assess their presentation or prediction skills,” Sahlman says in Entrepreneurship Essentials. “They want optimistic and confident realism. They dislike projections that are unrealistic. They've seen too many companies miss their targets and get in trouble.”

5. Show the Roadmap

Although you’re in the early stages of your business, investors want to know how they’ll cash out in the end. To clinch your pitch, highlight your exit strategy and the options available.

“Investors want to back companies where there are many exit options,” Sahlman says. “They want to know how they can convert their investment back into cash that they can return to their partners.”

The most common exit strategies include:

- **Acquisition**: When one company buys most or all of another company’s shares to gain control of it
- **Merger**: When two existing companies are united into one new company
- **Initial Public Offering (IPO)**: When a private company issues its first sale of stocks to the public and can start raising capital from public investors

> ***Related:*** What Are Mergers & Acquisitions? 4 Key Risks

3 KINDS OF PITCHES FOR ENTREPRENEURS

While all strong pitches share foundational elements, there are different types to use depending on the scenario. To increase your chances of success, you must tailor your pitch to your audience and the available time frame.

1. The Elevator Pitch

This is one of the most popular pitches. Entrepreneurs use this when they need to communicate their startup’s value in 60 seconds or less. An effective elevator pitch should be concise, convincing, and convey your startup’s value proposition and differentiators. At the end, include a call to action, such as the amount of capital required to launch.

2. The Short-Form Pitch

Entrepreneurs should portray their business idea's value to prospective clients and investors as efficiently as possible. This means summarizing the most important elements of your idea in a way that makes them want to hear more. Highlight the market size, how you'll create barriers for competition, your plan to monetize the business, and how much financing is needed.

Short-form pitches can run from three to 10 minutes; if you're pitching in a competitive setting, note any length requirements. These shorter pitches can pique investors' interest and earn you the chance to present a long-form pitch.

3. The Long-Form Pitch

Sometimes, entrepreneurs are fortunate enough to have more than a few minutes to pitch their idea. If this opportunity presents itself, it's important to make the most of your time. This is the opportunity to address every aspect of your business plan. Zero in on your story and share a real-life scenario. Detail the market size to illustrate demand and clear examples of how you'll attract and retain customers, particularly in light of competitors. This will show you're planning for—and are ahead of—future challenges.

You should also have a blueprint for how you plan to test product-market fit, early results, and a detailed monetization plan. Lastly, share your exit strategy and the amount of capital needed to, one day, achieve that strategy. A long-form pitch should communicate the business concept clearly and concisely, open the possibility for follow-up questions, and capture the investors' interest.

Consider preparing all three pitch lengths so you can be ready for any opportunity. It's important to stay agile so you can modify your pitch to fit specific length requirements.

LANDING THE PITCH

Every investor prioritizes different data and information. Yet, if you start by choosing the right investor and then align their needs with your proposed market opportunity, value proposition, and exit strategy, you have a chance at landing the pitch.

If you're interested in learning more about what investors look for and how you can create value, explore our four-week online course Entrepreneurship Essentials and our other entrepreneurship and innovation courses. Not sure which course is the right fit? Download our free course flowchart to determine which best aligns with your goals.

This post was updated on September 9, 2022. It was originally published on August 27, 2020.

About the Author

Lauren Landry is the director of marketing and communications for Harvard Business School Online. Prior to joining HBS Online, she worked at Northeastern University and BostInno, where she wrote nearly 3,500 articles covering early-stage *tech and education—including the very launch of HBS Online. When she's not at HBS Online, you might find her teaching a course on digital media at Emerson College, chugging coffee, or telling anyone who's willing to listen terribly corny jokes.*

Top FAQs

All FAQs

How are HBS Online courses delivered? +

Do I need to come to campus to participate in HBS Online programs? +

How do I enroll in a course? +

Does Harvard Business School Online offer an online MBA? +

What are my payment options? +

What are the policies for refunds and deferrals? +