Pitching Tip 1: Stop "thumb-sucking" numbers

By Allon Raiz

1 Jun 2021

Over the past 11 years, Raizcorp has mentored hundreds of entrepreneurs who have participated in the Engen Pitch & Polish business pitching competition, sponsored by Engen and Nedbank. Many of them have gone on to run innovative and sustainable businesses.

Photo by Christina Morillo from Pexels

In this series of articles, I will share important tips to help any entrepreneur to navigate their way around pitching to investors to scale their business.

There is an erroneous view held by many that there isn't sufficient finance available for entrepreneurs in South Africa. I have stated the following before, and I will state it again: there is more money chasing good businesses, than there are good businesses chasing money.

I've witnessed many entrepreneurs make fatal mistakes when pitching to potential funders, based on a lack of knowledge, or by trying to emulate the techniques they see on popular TV programmes, where business owners have the opportunity to pitch their businesses to venture capitalists.

Pitch your way to over R1m in prizes!

Raizcorp 27 May 2021

I will share my thoughts and recommendations on how you – as an entrepreneur – can improve your business pitch to potential funders, and I will highlight some pitfalls you should avoid.

My first tip is don’t express the deal upfront

In a recent MBA pitching session, every team that pitched their business to potential investors opened up with the “deal” and one in particular started off by saying, “We are looking for R3 million, and are prepared to give you 20% equity.” This is not how pitching to investors works in real life.

Entrepreneurs who make excellent, well-thought-out pitches begin with an explanation of the opportunity, speak about the experience of the team, move on to the probability of success (including all risks and mitigating factors), and end with their financial requirements to pull this off. In most instances, they don’t even verbalise their deal to the venture capitalist because the deal is only negotiated once the venture capitalist is interested and willing to proceed.

I see far too many “thumb-sucked” numbers in pitches, which are based on exorbitant evaluations which have no foundation in reality. So, if we look at the aforementioned deal of R3 million for 20% equity, that would mean the business is valued at R15 million.

Now, that might very well be true, but the entrepreneur needs to spend a disproportionate amount of time ensuring that the assumptions underpinning the valuation are robust and, more importantly, realistic.

The net effect of throwing out a thumb-sucked valuation is either the financier walking away, or the entrepreneur’s valuation being whittled down to a small fraction of the initial thumb-sucked value. By communicating these types of valuations to potential investors, you’re demonstrating that you’re not financially savvy and thus probably not a good potential investment.

When pitching your business to potential investors, ensure that any deal discussed is based on conservative, highly-researched and reality-based assumptions. The rule of thumb in these situations is that, the longer you take to talk with the investor in the pitch before talking about the mechanics of the deal, the more likely it is to be struck.

ABOUT ALLON RAIZ

Allon Raiz is the CEO of Raizcorp. In 2008, Raiz was selected as a Young Global Leader by the World Economic Forum, and in 2011 he was appointed for the first time as a member of the Global Agenda Council on Fostering Entrepreneurship. Following a series of entrepreneurship master classes delivered at Oxford University in 2014, 2015 and 2016, Raiz has been recognised as the Entrepreneur-in-Residence at the University of Oxford's Saïd Business School.

- What it takes to go from side hustling to successful entrepreneurship - 7 May 2024
- Learning to pitch better: The value of feedback from investors and financiers - 19 Apr 2023
- Want to grow your business? Get rid of the 'fax machines' - 15 Dec 2021
- #PolishYourPitch: Pitching Tip 9: The simpler, the better - 20 Jul 2021
- #PolishYourPitch: Pitching Tip 8: Be specific - 13 Jul 2021

View my profile and articles...