Frank Rotman @fintechjunkie

23 Sep 20 • 22 tweets • fintechjunkie/status/1308849139288084480

Tr

1/21: Every early stage startup pitch looks the same at a foundational level. This means that the analysis of every early stage startup also looks similar (especially true in #venturecapital and #fintech). Unpacked:

2/21: Every pitch has four main high-level asserted statements: A problem statement, a solution statement, a financial statement and a team statement.

3/21: The problem statement is the Founder's way of helping his/her audience internalize a problem they've discovered in their target market and an articulation of why it's a gigantic and profoundly painful problem to a defined group of customers.

4/21: The solution statement is the Founder's way of articulating a better way of solving the profoundly painful problem they described in the problem statement paired with whatever evidence they have that the end users agree (i.e. - market traction).

5/21: The financial statement is a way of articulating the prize that everyone is playing for if the problem and solution statements are correct.

6/21: The team statement is the Founder's way of articulating why the audience should trust that the problem is well understood, the solution is well designed, and that the assumptions baked into the financial model are "experientially grounded".

7/21: The job of an early stage investor is to dig in, tear apart and have opinions on all four of these statements. The work becomes the "path to conviction".

8/21: Using one "statement" to prove another is lazy but pretty common in today's over-saturated venture ecosystem. The most common refrain I hear is: "The Founders are great so therefore....". The team might be great but isn't proof of the other statements.

9/21: The art in tearing apart the problem statement is to figure out how profound the problem is and what subset of the market is willing to pay to solve it. Founders typically overstate how painful the problem is and don't always understand how large the addressable market is.

10/21: The art in tearing apart the solution statement is to figure out if the described solution is possible to build and if built is it "better by enough" to overcome inertia and friction. Founders typically underestimate inertia and overestimate how good their solution is.

11/21: The art in tearing apart the financial statement is to figure out the key drivers of the financial outcomes and ground them to known analogues in the current

ecosystem. The more a model describes “existing norms delivered in a better way” the more believable the output is.

12/21: Unit economics matter more than Founders want to believe and not enough attention is typically paid to how the units are manufactured. Manufacturing costs are almost always underestimated (OpEx and SG&A) and crush many startups as they scale.

13/21: Market penetration analysis needs to be put in the context of the competitive landscape and too many Founders assume that the competition is slow and stupid. Competitors might be slow to change but they’re not stupid nor are they inert and they have scale on their side.

14/21: The art in tearing apart the team statement is to find a way to see through charisma and judge a team on other competencies. Charisma can be blinding and many team’s historical successes aren’t correlated with their odds of success in building something new.

15/21: Of importance: The team’s track record, their industry specific knowledge and ability to identify landmines, their experience navigating regulatory complexities, their moral compass when faced with economic tradeoffs, and their ability to attract world class talent.

16/21: Many VCs throw out a company’s solution and financial statements on the grounds that they will change over time as the company learns. This might be true but these statements set the foundation for the company’s learning agenda and are windows into how the Founders think.

17/21: LPs shouldn’t be paying VCs to be 95% talent scouts and 5% business analyzers. Winning plays out over time and if a VC can’t give specific advice day zero then they’re setting the stage to only give generic advice over the next 7-10 years (which is a commodity).

18/21: What “VC conviction” looks like coming out of this process is a narrative about what’s being created, what has to go right to build a gigantic business, how it fits with a view of the future of the ecosystem and what the reward is if things go roughly according to plan.

19/21: The VC is going to be wrong on most details coming out of this process but if they’re directionally right on the drivers the destination will still be an extremely attractive one. Teams can adjust to market feedback but businesses can’t adjust to market forces.

20/21: Venture investing is easy to do poorly and hard to do well but this is true of most professions. There are other ways of being successful as a VC but being thorough and complete is what works for me. I appreciate there are different styles of investing but why be lazy?

21/21: Curious to hear what investors with different styles think. RT with comments so we can get a discussion going!

@threadreaderapp unroll

...