The Key Questions Venture Capitalists Ask When You Pitch Your Startup

As a repeat founder, I have been through countless pitch meetings at this point, but, the first time I went to meet with an investor, I have to admit that I was clueless about what to expect and how to prepare for fundraising meetings.

To help you increase your odds of success, I have compiled a list of some of the most common questions that potential investors will ask entrepreneurs during startup pitch meetings. Before you discuss valuation or get to the point of hammering out the details of a term sheet, you will typically have an introductory meeting or two to persuade investors or venture capital firms that your startup is a good investment opportunity (e.g. it has strong odds of making a huge return for the venture fund!).

This list of questions VCs ask is most applicable to an early stage startup, raising its first few rounds of capital. The pitch process changes when raising money at the growth stage, as the focus is on tangible business metrics, revenue & profitability, rather than an idea or the growth potential of a product as at the seed and Series A stage. When you pitch your startup idea to a startup incubator or accelerator like YCombinator, you should expect to hear similar kinds of questions.

One quick note before we dive in: you will rarely, if ever, have an investor meeting where you go through a pitch deck, slide by slide. Most meetings to pitch your startup to venture capitalists will be like a conversation, where both sides ask the other questions. In a separate article, we will cover questions to ask prospective investors during your

pitch meetings. Here in this article, I will only be covering the questions venture capitalists ask entrepreneurs during pitch meetings.

The following questions are not meant to be comprehensive, but rather serve as a starting point to help you think through key questions that angel investors & venture capitalists will want answers to before committing capital to your startup.

Question: What problem are you solving?

This is the most basic and simple question that an investor will ask you, but, how you answer this question is critical. Investors are trying to assess whether the problem your startup is tackling is a big problem, one that is faced by many consumer or affecting enterprises with deep pockets.

In my experience, the most persuasive way to answer this question is to frame the problem in terms of user stories. For example: “Sarah is in charge of department X at Y type of company. She needs to solve problem Z, and the lack of a solution creates huge costs for her company.”

Why is this framing persuasive? It makes it easy for the investor to understand the startup’s target market and potential market size. How many people are there like Sarah in the world? How much would they spend on a solution to problem Z?

Question: How does your startup solve this problem 10x better than existing solutions? What makes your product unique?

Investors understand that for a startup to make a big impact, the product or service has to provide a vastly superior solution to existing products that are on the market. Why is this the case? It is hard to persuade customers to switch over from incumbents unless the new solution is 10x better than the existing solution.

The new startup that can successfully poach business from incumbents does so because the startup's product is either 10x faster, it addresses customer needs that are not met by existing solutions, or it provides 10x efficiency because it consolidates and replaces multiple point solutions.

If you cannot persuasively answer this question, it is unlikely an investor will pull the trigger on cutting a check to invest into your startup. Making a product that is incrementally better than existing solutions rarely yields venture scale returns.

Question: What is your startup's competitive advantage?

This question is really asking about why your startup is uniquely positioned to succeed, whether it is some innovative intellectual property or technology that has been developed in-house, a unique way of getting distribution for your product fast, or a killer product UX that blows away the competition. Investors ask this question because they want to know that you have an in-depth understanding of your target market and customers.

Question: Why are you and your co-founders the right team to solve this problem?

In the early days, before the company has customers or a real business, an investment from venture capitalists is basically a bet on the quality of the team members building the company. They will ask questions about your background, motivations and tenacity, as well as your history working together as a team, in order to assess whether you and your co-founders are a good bet. After all, if your management team cannot execute, it doesn't matter how great your idea is — your startup will fail and it won't be a profitable investment for the venture fund.

Question: Personal history of the founder

VCs may ask you questions that seem to be asking you to tell your life story, or, more precisely, how you came around to the idea of becoming an entrepreneur and starting a company. Successful companies take years to execute, and these biographical questions are a round about way of asking whether the founder is motivated to devote 5-10 years of their life to making their startup a success. If the company founders do not seem passionate about the space their startup is working in, investors will view this as a red flag.

Question: What is your business model? How will your startup make money?

Your technology might be great and your product idea might be a no-brainer, but, in order to be a great investment opportunity, your startup needs to have a clear pathway to making revenue... and lots of it!

To answer this question persuasively, you need to understand first how venture capital funds make money in the first place. The venture capital investment model is to invest in many startups, with the expectation that most of these companies will fail, while a handful of companies earn 100x returns and makeup the vast majority of the fund's returns. To demonstrate that investing in your startup can yield venture scale returns, explain how your technology or products have a way of capturing substantial revenue in your target market as your company scales.

Startup investors and venture capitalists love to see startups with business models that have recurring, subscription-based revenue, as is typical for SaaS startups. Startups with such business models tend to achieve better margins and reach profitability faster than companies that have one-off revenue or a service-based business model.

Question: What is the actual addressable market for this product?

If you want to persuade an investor that your startup is a big investment opportunity that can reach venture scale, you need to make the case that your startup is chasing a huge market opportunity.

Your startup's Total Addressable Market (TAM) is so important, it probably gets its own slide in your pitch deck. How do you calculate your TAM? There are two methods that are used: top-down and bottom-up.

With Top-Down TAM analysis, you take the overall market size and then estimate your business's position in it.

Let's say your startup is building a short-form video platform focused on men's skincare. If video platforms are a $20B per year market, and 20% of ad dollars are spent by skincare and beauty products brands, but only 15% of those ads are for male-oriented skincare products, your TAM is $600M ($20B x .2 x .15).

With bottom-Up analysis, you take the number of possible customers and the amount they'd pay for your product or service on an annual basis.

Let's say you're developing a SaaS product for independent insurance agencies. There are approximately 36,000 independent insurance agencies in the United States. If you expect to generate an average of $1,500 per month ($18,000 per year) per customer, your TAM is $648M per year. (36k customers * $18k per year)

Which method should you use? Top-down TAM is typically quicker and easier to calculate, but bottom-up TAM can be more accurate and is often more persuasive to investors. Make sure you can make a believable case for the potential scale of your business, otherwise your pitch to venture capitalists will fall flat.

Question: How will your startup acquire customers? What is the distribution model?

The investors are not asking about the precise details of customer acquisition cost and profitability at this stage. They want to know, in broad strokes, how you will be finding customers, whether it is by buying ads on the internet, leveraging relationships with business partners, attending trade shows and conferences, or publishing content online. For example, at Capbase, before we had a product in market, when we pitched investors, we answered this question by pointing to content marketing (the very blog where this article is being published!) and partnerships as our big growth levers.

Question: What milestones do you hope to reach with this round of funding?

An investor needs to know that their money will be put to good use before you get them on your cap table. More specifically, the investor wants to know that the startup will be able to raise follow-on rounds of funding in the future. The best way to answer this question is by saying you will use the money to hit the business metrics needed for the next round of financing.

If you are raising a pre-seed round, you would explain how you plan on using the money to get a product in market with enough traction to raise a sizable seed round. If you are raising a seed round, you would explain how you plan on using the money to reach the business metrics that will enable you to successfully raise a series A round, like $1 million in ARR. If you are raising a series A round, the ARR figure goes up to a target of

$5 million or $10 million in recurring revenue since this is the milestone you would need to reach to successfully raise a series B round.

Question: What positive early traction has the company achieved so far?

Investors de-risk their investment by getting validation from the market that there is customer demand for your product. If your startup is still in the very early stages, you may have little traction to demonstrate.

If you don't have any customers, you can show usage data from existing users, even if the users are using a beta or early prototype. Obviously, it is more persuasive if you already have customers paying for your product.

Short of having actual users or customers, you can validate your business model by doing tests with landing pages and collecting emails for a product waitlist.

Question: What KPIs are you tracking to understand user behavior and your business?

Investors want to know that you have a deep understanding of what motivates your users and compels them to spend money on your product. If you have no monetization in place, you will want to discuss usage metrics that demonstrate that your product is sticky and is used regularly by your users. If you have monetization in place, you will want to discuss metrics like customer retention rate, sales churn, unit economics and customer referrals.

Question: Why now? Is the market ripe for this product offering?

You can answer this question by thinking about why your product or service does not already exist in market. For example, Uber would not have been possible without consumers first adopting GPS-enabled smart phones and mobile payments. Capbase would not have been possible without the increased standardization of startup legal documents in the startup market and the development of various fintech APIs for connecting to bank accounts and accounting systems that are product makes use of.

The other way to answer the question is to paint a picture of the broader market sentiment and trends that are related to adoption of your product. For example, there was a huge surge in demand for privacy technology and VPNs after the Edward Snowden revelations about NSA spying.

Question: Who are your biggest competitors?

When someone tells an investor that they are the only game in town, they come across as either really arrogant or incredibly naïve.

All companies have competitors and founders better know who they are. Entrepreneurs are competing with someone for wallet share, a product is displacing an existing product, there are overlapping components or prospects are trying to build it themselves. There's at least one other company whose market share your startup is biting into in one way or another.

Question: Is the company incorporated in Delaware?

Angel investors and venture capitalists generally only invest in stock corporations that are registered in Delaware. Why? Because Delaware has efficient courts, a fair and widely understood corporate legal code, and it's where most of the Fortune 1000 is incorporated. Investors generally do not invest in LLCs because these companies are difficult to diligence and their investments would not be eligible for QSBS exemption unless the company is registered as a Delaware corporation.

Other questions venture capitalists ask in pitch meetings

This is a Here are some other common questions that investors love to ask during pitch meetings.

- What are the potential risks to the business?
- What has been the customer feedback so far? How did you iterate on this feedback to improve your product?
- Does the company have unique intellectual property?
- What is on the product roadmap? How will additional features or products unlock additional revenue?
- What is your burn rate? How do you hope to achieve profitability?
- What is your target pre-money valuation or post-money valuation for this financing round?

TLDR; Summary

Entrepreneurs who are looking to raise funds from outside investors will need to be prepared to answer many questions about their business idea and management team.

The more well-prepared you are as a startup founder, the higher your odds of success in raising a round from venture capitalists and angel investors. As your startup matures and moves toward IPO, the key questions that you will need to answer in pitch meetings will change, in part because your business is more mature and the company financials can be analyzed systematically.

Common areas that early-stage investors will ask about include:

- Management team. Is the team well-suited to execute on this startup idea?
- Product-market fit. Is there evidence that customers want this product and will use it?
- Total addressable market. Is there a big market opportunity out there?
- Risks. If this company is going to fail, what are some potential reasons why? Are these risks manageable?
- Go-to Market (GTM). How will the company get customers at scale?