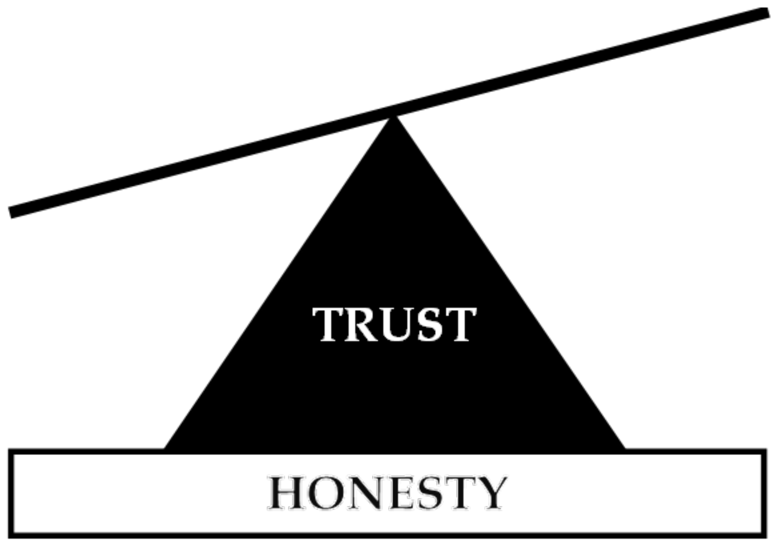
THE HONEST PITCH



Building Trust as You Talk About Your Startup

By Mike Palmer

The Honest Pitch
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> Every craft and every inquiry, and likewise every venture
> and decision has the goal of achieving something good.
>
> Aristotle, *Nicomachean Ethics*

Every well-crafted startup pitch seeks to **build trust** with investors, employees, and buyers.

Trust is the "something good" that entrepreneurs need to achieve in the act of persuading someone to help their venture.

The goal of this book is to help you and your team develop the skills and habits of meticulous honesty when talking about your startup venture.

The book explains why meticulous honesty is vital to your venture's success.

It describes how to go about making meticulous honesty part of your team's culture.

About This Book

You know how when someone asks you a question you think you should be able to answer and you make up what you believe might be a good answer even though you don't quite know if you're right? You guess or give a plausible answer or say what you think is in the ballpark. Or maybe you don't really want to answer the question. You might try putting the questioner off with an evasive answer. Perhaps you exaggerate a point or two. Sometimes your response is just plain BS.

You don't mean anything bad by it. It just seems to happen.

Well, this happens often when startup founders pitch their ventures whether in formal presentations or informal conversations.

It drives Angel and VC investors crazy.

They need correct answers to specific questions to decide whether to spend time learning more about your startup. When they sense that an entrepreneur is exaggerating or not giving straight, meticulously honest answers, their trust starts to waiver. If they hear two or three evasive or inaccurate responses, many will simply shut down and wait for the next person in line to make her pitch. The entrepreneur may never know how many such investors took a pass without telling her.

My goal is to persuade startup leaders to learn and use the skills and habits of meticulous honesty when talking about their ventures in order to build enduring trust relationships with those who can help them.

Being honest when pitching a startup is not as easy as simply committing to practice that virtue, although that is an important first step. To make an honest pitch you need both a commitment and a set of skills. This book provides a guide to both.

During a 34-year career as an entrepreneur and investor, I've made many pitches to potential employees and partners, to friends and family, and to a few Angel and VC investors. I've helped entrepreneurs prepare pitches. I've watched hours and hours of pitching on Shark Tank and Restaurant Startup. And I've listened to other founders make pitches at investor conferences, Angel investor gatherings, and pitch contests.

I've also spent many years writing legal briefs and making arguments to judges and juries. The skills needed for courtroom advocacy can also help you make a meticulously honest startup pitch. I weave those into this book as well.

I plan to supplement *The Honest Pitch* with online resources, including videos, interviews, and more examples. I welcome all comments and suggestions.

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Section One: Understanding the Problem

Chapter 1: Too Many Decent People Come Off as BS Artists

In a startup pitch you must communicate key information about your startup venture—what you know, don't know, and could know in the future—honestly and accurately in an engaging way that lays the foundation for a relationship of trust with investors, employees, and other supporters.

Basically decent people occasionally create an impression of dishonesty by exaggerating facts, embellishing findings, guessing, engaging in wishful thinking, and trying to evade or BS their way through hard questions.

This behavior damages trust, leading investors to walk away and ventures to struggle and die.

The Pie Guy's Pitch

Let's call him the Pie Guy. He's pitching an investment of $460,000 for 10% of his company. The back story reveals that he is on his third bank loan and fully tapped out. If he doesn't find a cash investor, his business will fail.

Pie Guy	Investor	My Comments
Our major market is wholesale buyers. We did "almost $1 million in sales last year."		
	"Hang on. You got a million dollars in sales last year?"	
"$850,000, sir."		$850,00 is not "almost $1 million." It's 15% shy of that number. Doubt starts to set in. Was it really just a bit over $800,000? Why did he voluntarily inflate this number?
	"Did you make money on your $850,000 in sales?"	
"Yes, sir. We've been averaging about 20% a year in net income."		
	"Really?"	The investor is incredulous.
"Yes sir, well wholesale and retail."		The Pie Guy starts hedging. How much is retail and how much wholesale?
	Another investor chimes in, "So, you're selling pies. You're doing a million a year. Eight hundred and fifty thousand. You've got a cute little mascot who follows you around. What's the problem? Why are you here?"	

"Well, the problem is I can't keep up with the demand. I've got everybody from a national food service chain to local and national fast-food restaurants that want to carry the product." The pie guy then claims that McDonald's is the fast-food chain that "wants to carry the product."

Let's recap. This business is doing $850,000 in sales every year with a 20% profit ($170,000). The Pie Guy can't keep up with demand. McDonald's (probably a local franchisee) "wants to carry the product." And the owner can't get bank financing?
Something is not adding up here.

The Pie Guy is peddling almost truths. He's not sharing the full story. And, though too polite to call him on it, all the investors in the room sense that they're *not* getting a *completely honest* presentation. It's not that the Pie Guy is blatantly lying (as far as we know); but he's clearly not telling the unvarnished truth either.

"What you pitched me was BS."
Tim Love

Few of us flat out lie in a startup pitch, saying things like "we're making a 20% profit," when we're really losing money. (Only con artists are good at blatant lying.)

Rather, we embellish, fudge, hide unpleasant facts, evade harsh truths, and say things like "last year we had almost $1 million in sales" when sales were only $850,000 and maybe not even that much.

Although sympathetic—even charming—the Pie Guy did not close an investment deal with any of the investors in the room.

Like You, The Pie Guy is a Good Person

The Pie Guy is a good person. I'm sure of it. He's not malevolent, manipulative, given to trickery, or malicious deceit. Why then did he repeatedly inflate facts and exaggerate? Why did he say "almost a million" when $850,000 was closer to the truth? Why say his only problem was not being able to keep up with demand, when clearly there was a big problem somewhere that he wasn't talking about.

"Nothing is easier than self-deceit. For what each man wishes, he also believes to be true."
Demosthenes

The Pie Guy may have been the victim of thinking the truth was not good enough. Perhaps he thought, "The investors won't invest if I tell them the real problems we have; so, I'll paint a rosy picture. We just need $460,000 to expand enough to meet demand."

The irony is that the investors walk because they quickly catch on that they're not getting the full story, the whole truth. Their BS detectors go off and trust evaporates. More candor and less hype might have won them over. The pies *were* delicious.

Why Investors are on Guard

In the United States, we live in cultures permeated by dissembling, fakery, almost truths, evasion, inaccurate information, false impressions, fraudulent concealment, plagiarism, making it up as you go along, various forms of BS, and outright fraud. The ways in which people are less than honest could fill an entire book. In fact, several books are devoted to this theme.

St. Augustine of Hippo got the ball rolling with two short books written around 395 CE: *On Lying* and *Against Lying*. Sissela Bok wrote a widely respected book on *Lying.*[1] And who can forget Harry Frankfurt's little philosophical essay *On Bullshit,*[2] a worldwide bestseller?

In *The Cheating Culture*,[3] Daniel Callahan documents widespread cheating of various forms in all areas of public life, including in the professions, academia, corporations, nonprofit organizations, government, politics, and religious institutions. To put it mildly, large segments of our culture have difficulty maintaining honesty in all settings all the time.

Dan Ariely and other social psychologists have shown in several experimental studies that roughly 25% of the population will lie to get even a small advantage when they think no one is looking or they won't get caught.[4]

You may have gone to a topflight college where some students routinely turned in plagiarized papers and cheated on exams.[5] It's hard not to be tainted or influenced by a culture of cheating. In particular, you may have absorbed some of the common excuses and rationalizations for this kind of dishonesty:

- Everybody does it. (I'm looking at you, Silicon Valley.)
- It's only this once.
- I was too drunk to prepare properly. (Really?)
- I didn't know that was cheating.
- No one was hurt by it.
- The dog ate my paper, and I didn't have time to do it over.
- I worked hard in this class and deserve a good grade.
- I have a job that keeps me up late and didn't have time to study or prepare for the test.[6]

How many people, when given the opportunity, are likely to cheat a little on expense accounts, billable hours, tax returns, quarterly reports, and other documents so long as they can justify the fudging to themselves? Probably more than we might like to admit.

We like to think this weakness for mendacity is solely the result of bad character. To be sure, bad habits are part of the problem. But, as Ariely and others have shown, we also cheat, dissemble, hide the truth, fib, tell convenient half-truths, steal, and engage in other forms of deception because circumstances give us the opportunity and excuse for doing so. (Donald Cressy's famous Fraud Triangle lists three main factors leading to fraud: Motive/pressure, opportunity, and rationalization.)

The authors of "Trust," based on the General Social Survey, report that general trust in the United States has decreased significantly since 1972 and is much less than in some other countries such as Sweden.[7] This may reflect the prevalence of cheating and dishonesty in the US.

The recent Theranos case illustrates the problem in dramatic fashion. As John Carreyrou tells the story in *Bad Blood*, the company's founder persuaded top-level VC's and Angels as well as highly qualified experts to invest in or lend their names to a company that supposedly had achieved a major breakthrough in blood testing equipment.[8] After years of investigations and months of trial, the jury decided that the company's founder was guilty of fraud. She is waiting to be sentenced.[9]

It's not surprising, therefore, that Angel and VC investors report experiencing some form of BS in many pitches they hear.[10]

Angels and VC's may give you the benefit of the doubt when you take the stage; but you have only a short amount of time to signal that investors can trust you.[11] At any moment during the pitch, you can destroy whatever trust you have built with even a slight bit of obvious hype, puffery, or exaggeration.[12]

Chapter 2: Why Develop Habits of Meticulous Honesty?

Setting aside moral and legal requirements, why would you want to be as honest as possible in a pitch and every other aspect of your startup? What's the big deal? People cheat to pass a course, and they get their degrees anyway. People cheat on expense reports, time sheets, sales reports, and financial statements. And life goes on. Why does it matter if I embellish a fact, hype the market, exaggerate what my Widget can do, or otherwise engage in a little puffery? Everybody does it. You said yourself that BS is widespread in Silicon Valley. Don't investors discount for it?

Short answer: Honesty builds trust. Dishonesty destroys it.

Investors will not invest if they do not trust you. Employees will not join the company, if they do not trust you. Banks will not lend to your venture if they do not trust you. Suppliers will not give you credit (another word for trust) if they do not trust you.

You get the picture, right? More than any other business undertaking, startup ventures require trust to succeed. Squander trust and you are out of the game.

Plus, paradoxically, even when grossly exaggerated pitches land funding, the ventures are more likely to fail than ventures whose leaders are firmly grounded in facts.[13]

Honesty is the Threshold Test Investors Apply to Every Pitch

Investors won't hear you unless they believe you.[14] They won't believe you unless they trust you. They won't trust you unless you are meticulously honest with them.

When Angel and VC investors say what they're looking for, first on the list is integrity or honesty.

Angel investor Brian Cohen sums it up: "Integrity comes first for most investors. For me, it's a deal-breaker. If I am not absolutely, positively persuaded that you—and the startup's top management team—have a track record of integrity, I will not invest, even if you could guarantee—which you couldn't—that my investment will absolutely, positively pay off."[15]

In his Ted Talk on How to Pitch to a VC, serial entrepreneur and investor David Rose says the same thing: "The single most important thing that a VC is looking for when you come to them pitching your new business idea is integrity."[16]

Asked at the close of an interview about investing in startups about one piece of advice she would give entrepreneurs, Angel and VC investor Gina Tedesco replied with two words: "Be authentic."[17]

The First 45 Seconds

Research studies suggest that most investors are likely to trust you at the outset of your pitch or conversation.[18] You can think of this as a trust account much like money in the bank. With most investors, your account starts off with a decent credit. Investors will assume that you are honest and technically competent.

> "If you can't signal integrity and entrepreneurial proficiency in the first 45 seconds, you've more than likely lost me."
>
> Brian Cohen

Your most important job in the first 45 seconds of your pitch is to reinforce that initial trust. You do this by being meticulously honest—honest to a fault—and by showing that you have done your homework in preparation for the encounter. Of course, during the balance of your presentation, everything you say should reward and reinforce the investor's initial trust.

One misleading statement can reduce your trust account balance to zero.[19] Failing to candidly share everything you know about your venture will severely damage your credibility. Trust flits out the window like a butterfly.

Once lost, trust typically takes a long time to rebuild. An 8-minute pitch is probably not long enough.

Trust: An Essential Factor for Startup Success

Every startup venture must create two Things. Thing 1 is the product or service that buyers will pay for. Thing 2 is the team that creates and sells Thing 1. In existing corporations, Thing 2 (the team) may already exist, but often even established firms create new teams to build Thing 1.

In startups, neither product/service nor the company fexists. You and the rest of the startup team must create them both from nothing more than your ideas, force of will, drive, determination, hard work, and the help of many other people including employees, investors, professional service providers, supply chain partners, innovation accelerators, university researchers, government agencies, and relatives and friends.

Other people won't help unless they trust you and your team.

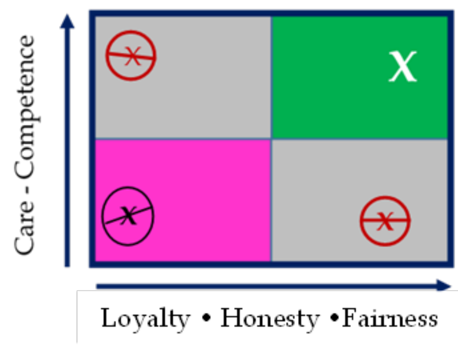
Chapter 3: Trust is a Byproduct of Honesty and Competence.

Trust is the belief that the object of trust will perform as expected. The object of trust can be a thing (ledge on a cliff), an animal (dog), a person (our best friend), an organization (the United Way), or an institution (the legal system). When an object of trust does what we expect, we say it is trustworthy, literally worthy of our trust.

We are intertwined in a web of trust. We cannot get out of bed in the morning without trusting that the floor will support our weight, that our inner ear is functioning well enough to help us keep our balance, that the water is clean enough to drink, and so on. Without trust, life is not possible.

Trustworthiness in people, animals, and entities has two simultaneous components: **character** and technical **competence**. For trust to work, the object of trust must keep promises, play fair, be honest, and not knowingly cause any harm. This is the **character axis**. Second, the object of trust must be capable of performing as expected. It must be competent.

Someone can score high on the character scale and low on competence or vice versa. A person might be as unwaveringly honest and fair-minded as the purest saint; but if she has no experience flying an airplane, it would be foolish to trust her with the controls of a 747.



Similarly, the most skillful technician might be as devious and manipulative as the most hardened psychopath. It would be unwise to trust such a person with company's security system.

We want people, teams, and organizations to score in the northeast quadrant of the Trust Grid™ shown above.

That we must trust others presents them with thousands of opportunities to betray that trust, to take advantage of us, to breach promises, to deceive, to steal, and in countless other ways to use our trust to cause us harm.

We can try to protect against betrayals of trust. We can try to trust but verify, as the Russian saying has it. But every precaution, control, and protection costs something, either in time or money or both. We must, therefore, continually weigh the costs of protecting against betrayal against the net benefits of incurring those costs.

Honesty signals competency and vice versa. Neither guarantees the other, but, in business, they often go hand in hand.[20]

The more trust we can justifiably bring to our dealings with other people, things, entities, and institutions, the more profitable those transactions and relationships will be.

You are a Fiduciary

Honesty is a universal moral norm because no team and no society can endure without a basic level of honesty and trust among its members. As a practical matter, to succeed with your startup, you need people to trust you and your team.

Honesty is also a legal requirement for anyone holding a decision-making position in a corporation, LLC, or other legal entity.

As an officer of a corporation or LLC, you are a fiduciary. That legal status carries specific responsibilities.

Think of a baby sitter. Parents entrust the care and wellbeing of a child to a babysitter. They expect the babysitter to look after their child just as they would. The babysitter deserves to be compensated for her work, but she may not take advantage of her position to promote her own interests. Unless the parents explicitly say she can, she may not eat their food or drink their wine or have her boyfriend over for fun and games. Neither may she advance her own interests at the expense of the interests of the child. If the child wakes up, interrupting a show she's watching on television, she can't ignore the child or give it a mix of vodka and orange juice to put it back to sleep.

The babysitter is a fiduciary, a trustee, of the child's parents. In this role, she has two basic responsibilities:

> First, exercise due care. Do what a reasonable and prudent person would do under the circumstances.
>
> Second, act in the best interests of the child and its parents (the principals), even if her own interests suffer as a result. In no circumstances may she advance her own interests to the detriment of those of the child or its parents.

As a fiduciary of your startup company, you have the same basic responsibilities to the corporation and its shareholders: (1) due care and (2) subordination of your own interests to those of the principals.

I can't cover the fiduciary relationship adequately here. But I and others have written about it extensively.[21] I recommend you read at least the [Wikipedia article]() on the subject.

Investors know that you are a fiduciary. They expect you to know it too. By being meticulously honest, you signal that you take this responsibility seriously.

Section Two: The Honesty Skills

Chapter 4: What is Honesty?

Making a meticulously honest startup pitch has two parts:

- transparently sharing what is in your mind and
- making sure that what you share is plausible and based on confirmable evidence and coherent logic.

The first aspect of honesty involves transparency, making what is in your mind accessible to others, letting them inside your head, sharing exactly what you're thinking without reservation and without any intention to mislead. Honesty in this sense involves making an affirmative, proactive effort to assure that the other person truly understands what you believe about a given topic.

This first notion of honesty has ancient roots. Etymologists trace the English word "honesty" to the French word "*honesté*," the name of a plant whose seedpods are translucent.[22] You can see what is inside the seedpod. It is an honest pod.

The second aspect of honesty in the context of pitching a startup concerns plausible, evidence-based beliefs. As a startup fiduciary, your head cannot be filled with mush, garbage, and wishful thinking. You have a responsibility to know what you're talking about. Knowing what you're talking about means that you have investigated the basis of the beliefs you're sharing and made sure that those beliefs are plausible and grounded in objective evidence and coherent logic.

To make an honest startup pitch, you can't be willfully or negligently ignorant of material facts. You must conduct the investigations that a prudent manager of other people's money and assets would conduct. In other words, there is an objective standard to honesty in the startup context.

The second aspect of honesty also brings self-deception into the picture. Taking steps to make sure that you yourself are not misled, deceived, mistaken, drawing false conclusions, falling victim to cognitive biases, or basing your thoughts on bad evidence is part of the startup fiduciary's job. You're the babysitter for other people's time and money—their investment. If you can't or won't take steps to protect yourself against false beliefs about your startup venture, you shouldn't be pitching them in the first place.

> "Nothing is easier than self-deceit. For what each man wishes, he also believes to be true."
> Demosthenes

For thousands of years, serious thinkers have seen honesty in its various nuances as foundational to human society. They often note that it is essential to trustworthy individuals and groups. In this chapter, I touch on some of what that means and why it is important when making a pitch for your startup or any other thing you are trying to sell.

Just as we have many words for frozen or near-frozen water from the skies (snow, sleet, ice rain, hail, ice needles, ice pellets, graupe), we can express different shades and nuances of honesty with words such as sincerity, forthrightness, candor, straight talk, transparency, openness, unguardedness, probity, ingenuousness, authenticity, frankness, outspokenness, unreservedness, plainspokenness, genuineness, simplicity, uninhibited communication, unfiltered talk, veracity, rectitude, conscientiousness, bluntness, scrupulousness, unvarnished truth, straightforwardness, and, of course, truthfulness.

Each of these words expresses somewhat different aspects not only of communicating what you truly think and believe, but also of being an upright, straight, honest person.

Being Honest

Honesty comes from seeing the Other Person as an end and not just as a means to your success. Honesty is a function of treating the potential employee, investor, friend, or family member as you would want to be treated if you were in their shoes.

By being meticulously honest, therefore, you move beyond a merely instrumental approach to pitching. You can reach a depth of shared meaning and authenticity as you talk about your startup.

“Instrumental pitching” uses pitching as an instrument, a tool, a means only to get something you want—typically money. There is nothing wrong with raising money. Your venture needs money. You have a responsibility to the company, its employees, and its shareholders to bring in the money needed to keep it moving forward. Without money, it will die.

But the pitch is also your opportunity to connect with people in deeper, human ways that will help not only your venture and you but also them and the people you want the business to serve.

It is common in business circles to talk about integrity as a catchall for honesty and honorableness. A person of integrity keeps her word, does not mislead, plays straight. Such a person is basically honest. The word suggests wholeness, consistency, congruity of thought and action, and authenticity.

Think of equipment for rock climbing, such as Kernmantle ropes, carabiners, and pitons. These and other tools help alpinists avoid falling. That is, they do if they perform as designed. The interior of a Kernmantle rope consists of strands of smaller ropes within an exterior sheath that protects the inner strands against degradation from dirt and debris and simultaneously generates some grab and friction for rappelling and lowering operations.[23] A Kernmantle rope is also strong and durable enough to support the full weight of a climber going up or down the mountain as well as in a fall.

The Kernmantle rope must not only look the part. It must be what it purports to be. It must be worthy of the trust rock climbers place in it.

Imagine the relationship an alpinist develops with an inanimate object such as a Kernmantle rope.

Now, imagine you are an Angel or VC investor in your startup venture. You entrust your money to an entrepreneur to move her venture forward. You would want the entrepreneur to have strong moral principles, to be honest to the core, to be someone of probity. You would want them to have integrity. Would you not? You would want their commitment to honesty to be as strong as a Kernmantle rope. Yes? You would want them to be authentic through and through—to the marrow of their bones. Right?

And if they are such a person, what kind of relationship can you develop? You can develop a relationship of shared meaning, of openness, of candor, of mutual support. You can develop a relationship of mutual respect, where each is a subject, an end and not merely a means to an end. You can have an unguarded relationship, in which each shares her true thinking unencumbered by fear of being tricked or manipulated.

In the business world, such relationships lead to the creation of great value that helps many people, and they also lead to rich lives.

I have mentioned before that a startup is akin to a scientific experiment in which you are trying to discover whether anyone wants your Widget enough to buy it. As with all science, all discovery of knowledge, the integrity of the experiment and the reporting on it are of paramount importance. People rely on this work, sometimes even for their health and safety, much like a Kernmantle rope.

Once the business is a going concern, customers and investors can more easily see what they are buying or investing in, particularly if it is a long-established corner grocery store or a public company. There is a track record.

Startups have little to no track record. Employees and investors place their faith and trust in the startup team to get it right and to play it straight. The closer you and your team come to this ideal, the greater will be your chances of success.

Numerous scholarly studies attest to the link between thoroughgoing probity—adherence to sound business ethics—and financial value.[24] Widely respected CEO's say much the same. James Cash Penney (J.C. Penney's), Herbert Taylor (Club Aluminum Products), Robert Wood Johnson II (Johnson & Johnson), Robert Packard (Hewlett-Packard), Bill George (Medtronic), Jack Welch (GE), Ben Cohen and Jerry Greenfield (Ben & Jerry's), and many other business leaders have made integrity a centerpiece of the business culture they helped develop.

The first question of Herb Taylor's 4-Way Test asks, "Is it the truth?" Taylor credited this mini code of conduct with helping to rescue Club Aluminum from bankruptcy at the outset of the Great Depression.[25]

After years of study and experience with business ethics, Robert Wood Johnson II created the J&J *Credo*, widely believed to have carried Johnson & Johnson through the Tylenol crisis of 1982.[26] The *Credo* famously lists the company's main stakeholders in order of priority: customers, employees, community, and shareholders.

Honesty is like healthy blood coursing through an organism's veins.

In *Authentic Leadership,* Bill George writes, "After years of studying leaders and their traits, I believe that leadership begins and ends with authenticity. It's being yourself; being the person you were created to be."[27]

The German word for probity is "Redlichkeit," which has a history going back thousands of years. Its root is the German word "Reden," which means to speak or talk. A person who is "redlich," therefore, is one who speaks true, someone who *is* true, upright, morally straight, responsible, and accountable.

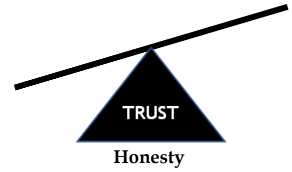
The essence of what you are doing in a startup pitch is speaking to persuade. I am urging you to make your persuasive speaking true, to make it "redlich," to maintain probity.

Work on developing a dialogical relationship with everyone willing to help your startup. A dialogical relationship is a relationship of mutual respect and reciprocity, in which each sees and deeply listens to the Other Person. Honesty, probity, candor, integrity, and authenticity are essential. It is in dialogical relationships that we find the meaning that sustains us as humans.[28]

Those who invest in a startup take an interest in it and can help in many ways along the way. Developing a dialogical relationship will foster attitudes that lead to on-going assistance, perhaps financially but, equally important, also through connections, advice, and just basic moral support. When the going gets tough—and it will—you may need moral support more than anything.

The Honesty Commitment

By now, you've gotten the gist. Trust is the fulcrum with which you leverage everything else. Meticulous honesty is the foundation of trust.



Commit to being rigorously honest in all your communications.

Most of us believe we are honest. We also believe we have sufficient reasons when we shade the truth. So, why do we need this commitment?

As I explain in chapter 7, our minds are good at giving us the "sufficient reasons" whenever we think being honest gets in the way of what we want. Honesty can sometimes be inconvenient. So, we make up reasons that sound convincing, and they convince us that shading the truth is OK. Objective observers, knowing what we know, might disagree.

By making an express commitment to being honest in all communications, we take a step toward avoiding rationalization and other tricks that corrupt our honesty.

We can reinforce this commitment by putting an 8.5" X 11" page on the wall with big type, saying "Be Honest." That serves as a re-minder, literally a means of putting this thought into our conscious mind over and over.

We can also shore up the commitment to honesty by making a pact with other members of our team to be honest in all our communications and by asking others to remind us of our commitment.

Chapter 5: The Basic Honesty Skills

In its simplest form, being honest means saying nothing that you don't believe to be true. If you say it, you believe it is correct. That's not always easy. But it's just the beginning.

Honesty is about more than not lying. You can be negligently dishonest. You can say things that are false because you didn't do the work to make sure they are correct. [29] In other words, making an honest pitch requires intellectual competence and a set of habits that enable you to practice respect for the listener. The following rules can help you achieve intellectual competence:

> "Integrity is just a ticket to the game. If you don't have it in your bones, you shouldn't be allowed on the field."
>
> Jack Welch

- Rely on first-hand knowledge as much as possible.
- Use <u>reliable</u> second-hand sources when necessary.
- Say only what you <u>reasonably</u> believe to be true.
- When you don't know, say so.
- Do your homework. Be prepared.
- Practice cognitive humility: I could be wrong.
- Know what you don't know.
- Mitigate cognitive biases.

The following chapters lay out suggestions for developing habits of meticulous honesty. If you develop these habits, you can confidently give an honest pitch every time—in the elevator, the bathroom, and the boardroom. As these habits become part of your character, you will increase the trust family, friends, and complete strangers have in *you*. They will be more likely to believe you and ultimately to hear what you're saying.

Rely on your own, first-hand knowledge when possible

First-hand knowledge is what you know from personal experience or from gathering the information yourself. You either saw it with your own eyes, heard it with your own ears, or know about it from one of your other senses.

A variation on first-hand knowledge is Your Own Data, as Alberto Savoia calls it. "Your Own Data (YODA) is market data collected firsthand by your own team to validate your own idea." [30] In other words, your team prepared and administered the survey, processed the information, and drew the conclusions. You can report on what you learned directly.

Eric Ries taught us the Japanese phrase *genchi genbutzu*, which he says is usually translated as "go and see for yourself."[31] As used by Ries, *genchi genbutzu* is shorthand for getting out of the building. Go speak with real buyers, people who might actually pay for your product or service if you built it. Make what *they* will pay you for. This is part of the first-hand knowledge you need to make an honest pitch. Savvy investors will often ask about it.

Build a pretotype to find out whether a real market exists for what you are building. Alberto Savoia invented the concept, used it successfully, and wrote a book about it (*The Right It*). You present a picture, model, or short version of what you intend to make and ask people to pay a deposit to reserve a copy of the full product once complete. By pretotyping you establish that real people will buy the product, because they already have paid money for it even though it's not ready. Done well, pretotyping eliminates some of the guessing and generates powerful information you can include in your pitch.

Build a Minimum Viable Product (MVP). This catchy phrase has become part of the jargon in startup circles. It means a product that actually works, even though it may be only a rough beta version without all the refinements you might want to include eventually. Like a pretotype, an MVP proves there are people who want and will pay for what you propose to build and sell. If you can include MVP sales data in your pitch, you will have proven two of the four essential components of startup success: (a) the product/service works and (b) paying customers want it.

Use reliable secondhand resources when necessary

We can't always get all the important knowledge for a startup from first-hand experience. Nor should we reinvent the lightbulb or rediscover electricity. Science is both the generator and storehouse of reliable knowledge. Increase your honesty quotient by becoming a consumer of science.

Thanks to Larry Page and Sergey Brin and the thousands of Googlers who have helped with their venture, you can tap into millions of books and tens of millions of scientific studies through Google Books and Google Scholar. All you need is a computer and an internet connection, and you can learn about more than you have time to read.

A regular Google search can sometimes be useful, but you need to know enough about your topic to be able to separate the wheat from the chaff. Moreover, except for Wikipedia and similar online encyclopedia, much of what a Google search turns up is superficial click bait, which may not be what you want to use as the basis for a point in your pitch.

There are various free encyclopedia available on the internet, including Wikipedia, Investopedia, the Stanford Encyclopedia of Philosophy, Scholarpedia, and more. Use them often.

You can sometimes find a reference to a scholarly or scientific study in a blog post or newspaper article. Using Google Scholar, track down the original study and incorporate its findings into your knowledge base.

Confirm facts like a *New Yorker* fact checker. Before making a factual statement in a pitch not based on first-hand knowledge, check it out with a reliable source. Don't delegate this. Look it up yourself. Make sure it's right. Misstating an easily checkable fact will damage your credibility. I've seen it happen repeatedly.

Over time you will develop a skill in getting reliable knowledge that can inform your decisions and form part of the basis for your pitch.

Say Only What You Reasonably Believe to Be True

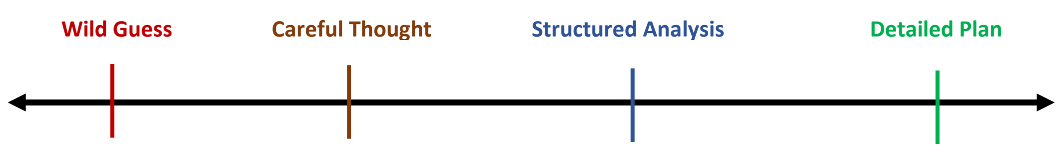
Tara tells a prospective investor, "If we get the funds, we will have the prototype ready within six months." She may believe that to be a true statement. But is the statement credible? Is it reasonable? That is, can she cite data and provide logically tight reasoning to support it?

What is the basis for her belief? Has she investigated what is necessary to complete the prototype? Has she conferred with the engineers who will be doing much of the work? Has she prepared a budget? Has she completed a critical path analysis.[32] Has she identified the potential bottlenecks? Has she thought about what could go wrong?

In addition to the habits of (1) saying only what you reasonably believe to be true and (2) knowing what you're talking about, Tara needs to consider the third principle of habitual honesty in business: (3) Base your predictions on known facts, reasonable assumptions, and logical analysis.

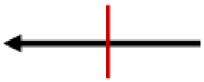
Is her belief based on solid investigation of what it will take to get the prototype built or is it more the result of wishful thinking?

The following picture indicates various degrees of care and attention one might give to an important matter.



Where on that continuum does the basis for Tara's statement reside?

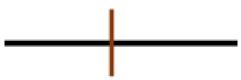
Wild Guess



= Largely the unfiltered product of subconscious intuition, what springs to mind and is affected by cognitive biases and heuristics.

The far left of the continuum, **wild guess**, indicates what our unassisted intuition generates. It is just what comes to mind in response to the question. This intuitive response can be deceiving because it seldom feels wrong. If Tara shares only the results of her intuitive process—essentially a wild guess—her cognitive biases will likely cause her to get the answer wrong, by a lot.

Careful Thought



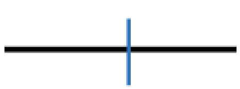
= The process of asking relevant questions, gathering evidence and reasonable assumptions, and producing logically consistent answers.

Careful thought is that level of thinking in which we ask ourselves questions and try to answer them with evidence, reasonable assumptions, and logical analysis. Tara might ask herself questions like the following: What parts of the process must we complete to have a finished prototype? How long will it take for each part of the process? What do we do not yet know that we will need to learn about before we can finish the prototype? What obstacles must we overcome? What known unknowns (contingencies) must we deal with along the way? What could go wrong? How long has this kind of process taken in the past? What resources (money, equipment, people, facilities) will they need to get the job done?

For each question, Tara and other members of her team need to assemble available evidence and to find out as much as possible from the Internet, experts, and people who have done something similar in the past.

Careful thought requires effort and time (and, therefore, money). Recording the results of the process consumes additional time. Because time and energy are in short supply in startups, Tara will need to strike a balance between the benefits of a thorough examination of the question and the costs of working on the projection for days on end, keeping in mind that the benefits far exceed that of having an answer to the question.[33] But if Tara wants to say only what she reasonably believes to be true, know what she's talking about, and base predictions on evidence, reasonable assumptions, and logic, she needs at a minimum to engage in careful thought before telling investors how long it will take and how much it will cost to build a working prototype.

Structured Analysis



= Using tools and resources to examine and record the information relevant to answering the question, typically making use of templates used by others to investigate and answer similar questions.

Structured Analysis involves using analytical tools and processes to achieve a higher degree of certainty about the answer to a question such as the expected delivery date of a working prototype. She might ask experts familiar with this kind of project to suggest procedures and tools that would help her make this kind of projection. Tara would likely use Excel to create workbooks of data. She would interview the engineers and others doing the work, using a survey form to record answers, to get their views on what they need. She would share her list of questions with other team members and outsiders (consultants, mentors, investors) to get their thoughts and experience, recording the results as she goes along.

Structured analysis is not just more and better careful thought; it involves a different kind of thinking. It takes more time and resources; but, in some settings such as projecting the time and money needed to produce a working prototype, the results may be well worth the effort.

Detailed Plan

A more intense level of structured analysis that produces specific information about the process that produces the result.

Detailed Plan takes structure analysis to a more intensive (and expensive) level. It gets down into the weeds of the question and is typically most useful when preparing a project proposal, in which erroneous projections can result either in losing the bid or in losing money when trying to complete the project.

Startup ventures resemble organizations that submit proposals in response to Requests for Proposals (RFP's) in established industries. In a sense, the startup pitch is a proposal to investors whose RFP's say essentially: I am looking for a project that will be rewarding to be involved in, will return substantially more than I invested, and I can otherwise feel good about.

A detailed analysis will help Tara reassure investors that their money will be used well and will likely get the job done, something surprisingly few entrepreneurs make the effort to do. But as with structured analysis, a detailed analysis is not free. Tara should weigh the costs of this level of examination with the benefits and strike the right balance.

Since Tara's projection of the date by which the prototype will be ready, like many statements entrepreneurs make, is about the future, her belief about the prototype is particularly susceptible to being distorted or skewed by several cognitive biases such as overconfidence bias, confirmation bias, and wishful thinking—even if she has developed a detailed plan. The overconfidence bias in this context denotes an unwarranted certainty about the accuracy of a belief. If asked, Tara might say that she is "highly confident" in the reliability of her prediction that the prototype will be ready in six months. If she has not completed at least a structured analysis, her certainty might be faulty.

If confirmation bias affects Tara's judgment, she will have selected evidence that supports her belief and ignored, rejected, or explained away evidence that tends to negate it. The effect is to make her blind to contrary evidence that others see plainly.

Wishful thinking is well known to us all. We want something to be true; therefore, we believe that it's true. While wishful thinking may be harmless in private affairs, it doesn't work in business and is especially risky in a startup.

Regardless of the degree of thought and investigation Tara has given the matter, her prediction would be better if she gave a time range within which the prototype will be ready rather than stating a specific date. Describing a predicted event as likely to happen within a given time range also increases your credibility in the eyes of investors and others.

Thus, Tara might say something like the following: "Based on our investigation of the amount of money, the physical and technical resources, and the expertise needed to finish the prototype as well as the potential obstacles we might encounter, we estimate that we will have it ready within 4 to 7 months. But, of course, we can't foresee everything. If we meet unanticipated problems, it could take longer and cost more money."

If you get even to the careful thought stage, you will join a minority of entrepreneurs who do this and gain the respect and attention of investors. If you advance to structured analysis, you increase your chances of an investment considerably.

Be Prepared

In a recent study, two researchers concluded that the lack of preparation increases the probability that entrepreneurs will misrepresent material facts when pitching to investors.[34] Being well prepared helps us stay honest because we have less need to make up answers to questions we did not expect.

Chapter 6: Honest Mind Work

I Could Be Wrong

Private placement memoranda—legal documents used in startup fundraising—and many pitch decks have a page setting forth every conceivable risk of an investment. The legal mumbo jumbo could be shortened to four words: "**We could be wrong**."

Saying "I (we) could be wrong" may be the most difficult part of being honest for entrepreneurs trying to hire employees or obtain an investment. But it could be one of the most valuable parts of your honesty skill set.

For, the truth is, each of us no matter how strongly we believe what we are saying, could be wrong. We could be grievously wrong. We could be hopelessly and irretrievably wrong.

In *Principles: Life and Work,* Ray Dalio tells about how in March 1981 he predicted a depression that would be as bad or worse than the Great Depression of the 1930's.[35] He was cock sure he was right and told his clients in memo's and everyone else on *Wall Street Week with Louis Rukeyser* in October of 1981. He was, as he writes, dead wrong. "I saw that I had been an arrogant jerk who was totally confident in a totally incorrect view."[36]

We all could be wrong even when we are certain we are right. I have been wrong so often on so many important things that I have sometimes considered writing a book with the title *Blunders I have Made.* It would be a big book.

That is why we need other people, other perspectives, more information, and, above all, an open and humble mind.

After all, a startup is an experiment. Many questions. Few certainties. Will our Widget work? Can we build our Widget efficiently and cost-effectively? Do we have the right team? How much money will we need to reach milestones A, B, and C? Will people pay money for our Widget? Will the company grow?

Entrepreneurs must form hypotheses about each of these questions. Testing requires at least preliminary answers. If we make a prototype, will it function as intended? Then we test and discover we were wrong about 2 of the 10 things that need to work.

Seasoned investors will know that you could be wrong about any number of things you believe to be true. To hear you acknowledge that *you* know this too is reassuring, not off putting. They know they are taking a calculated risk by investing. They like knowing that you know that too and have put your own skin in the game, despite the risk.

Knowing that you could be wrong helps you do a pre-mortem to avoid possible failure points. A pre-mortem? That's a thought experiment that assumes the venture failed and then works backward in an effort to discover what went wrong. In complex undertakings this exercise can help you and your team spot and avoid at least some potential pitfalls.

Know what you don't know

Over 20 years ago, two social psychologists published the results of a study showing that people who are the least competent in a given skill tend to think they are significantly more competent than they are.[37] Naming it after the two authors, other scholars call it the Dunning-Kruger Effect. Unless we have a basic level of competence in a subject, we don't even know what we don't know.

One of the steps on the path to cognitive humility (a key feature of honest pitching) is becoming aware that you may not know enough about a subject to know what you don't know.

In the startup world, there is a great deal an entrepreneur doesn't know. How incentive stock options work, what kind of legal entity is best, what is the competition, what will the production costs be for the commercial-ready product—these and other questions may be so far beyond your level of knowledge that you don't even know where to start.

What to do?

First, make an inventory of what you need to know but don't.

Second, find people who know or know other people who know. Form an advisory board with relevant expertise. Hire experts. Bring in consultants. Ask investors at pitch events for advice. Ask people in your circle how to get the knowledge you don't have.

Third, build your own knowledge base by reading as much as you can on the topics of concern. Be a sponge for information.

Fourth, keep a journal or notebook to record questions and thoughts and information sources.

Over time, you will start to get a sense of what you know and, almost as important, what you don't. If you're honest in pitching, you will let others know the limits of your knowledge as well.

Cognitive Biases: Avoiding the Mind's Tricks

Confirmation Bias

Suppose you had a magic ring that could make you invisible whenever you turned it inward. Would you still do the right thing, or would you lie, cheat, steal, and murder to get what you want?

In Plato's *Republic*, Glaucon poses this question after recounting the story about Gyges, an illiterate farmer who discovered such a ring while plowing a field, went to the palace, made himself invisible, killed the king and the old guard, and installed himself as king.[38]

As it happens, your mind (and my mind and every other human's mind) has such a magic ring. It's called your subconscious, which appears to be at work night and day feeding you thoughts that are sometimes brilliant but that may also be the result of flawed reasoning.

Jonathan Haidt uses the metaphor of a rider and an elephant to capture the relationship between our conscious reasoning and our subconscious thoughts: "[T]he mind is divided, like a rider [conscious mind] on an elephant [subconscious], and the rider's job is to serve the elephant."[39] The elephant takes us places we may not want to go or even know we are going.

Stated differently, your mind is an extremely well-developed tool for physical survival as a hunter/gatherer in a hostile world with scarce resources. Unassisted, it is ill-suited for mid- and long-term complex decision making under conditions of uncertainty. It plays tricks on you. And, if you don't protect against its trickery, you could make faulty statements and decisions.

One of these tricks is the **confirmation bias**.[40] We select evidence and arguments to confirm what we believe and reject or ignore contrary facts and thought. The confirmation bias has been the subject of hundreds of books and scientific papers.[41]

No one has said it better than Francis Bacon in 1620:

> Once a human intellect has adopted an opinion (either as something generally accepted or something it likes), it pulls everything else in to confirm and support it. Even if there are more and stronger instances against it than there are in its favor, the intellect either overlooks these or treats them as negligible or does some line-drawing that lets it shift them out of the way and reject them. This involves a great and pernicious prejudgment by means of which the intellect's former conclusions remain inviolate.[42]

In his *History of the Peloponnesian War*, Thucydides expressed the same insight:

> [T]heir mistake in their estimate of the Athenian power was as great as that power afterwards turned out to be, and their judgment was based more upon blind wishing than upon any sound prevision; for it is a habit of mankind to entrust to careless hope what they long for, and to use sovereign reason to thrust aside what they do not fancy.[43]

As you put your pitch together, you will almost certainly fall victim to the confirmation bias and rationalization processes needed to dispel cognitive dissonance. You will select the evidence that supports your pitch and exclude contrary findings, thoughts, and possibilities. You will do this, not because you are a bad person, but because you are human. We all do this. (I, no doubt, am doing something similar at this moment by reporting the evidence confirming the existence of the confirmation bias while not actively looking for any studies that might disprove it.)

Popularized in several books by Irving Janis, the word "Groupthink" refers to a form of blindness to potential catastrophic consequences that occurs in group decisions, particularly groups with strong internal cohesion.[44] As a result, groups reach decisions without critical thinking that could help them avoid bad outcomes. In his first study, Janis explored poor recommendations given by top-level advisors to Franklin D. Roosevelt (failure to be prepared for Pearl harbor), Harry S. Truman (invasion of North Korea), John F. Kennedy (Bay of Pigs invasion), and Lyndon B. Johnson (escalation of the Vietnam War).[45]

But if confirmation bias or Groupthink distorts your pitch, is it truly honest? Have you done everything you can to protect you and your investors from mistaken thinking? How can you mitigate the confirmation bias? How can you reduce, if not eliminate, its effect? I give some suggestions below.

Rationalization and Cognitive Dissonance

The process of explaining away apparent inconsistencies between the evidence and our thinking, known as rationalization, is yet another way our minds sabotage thoroughgoing honesty. Leon Festinger discussed this problem, which is closely related to confirmation bias, in his 1957 book, *A Theory of Cognitive Dissonance.* It has been the subject of hundreds of experiments and studies. Inventing reasons to resolve inconsistencies is a basic strategy of the conscious and subconscious mind.[46]

Humans tend to resolve cognitive dissonance by inventing a reason why a theory or ideology is right despite massive contrary evidence. It can best be understood by examples. In 1818, William Miller, a lay preacher in upstate New York, predicted that the world would come to an end about 1843.[47] By 1840, tens of thousands of people in North America followed Miller's teaching. In 1843 and 1844, several predicted days for the end of the world came and went. The world did not end; but neither did the firm conviction of thousands of people that Miller was right. "[I]n spite of the failure of the prophecy the fires of fanaticism increased. . . . Instead of decreasing, the failure seemed to excite even greater exhibitions of loyalty to the expectation of the impending Judgment Day."[48]

Finally, a Reverend Snow predicted that the world definitely would end on October 22, 1844.[49] It didn't. While many people eventually drifted away from the Millerite movement, thousands of others did not. Holding firmly to their convictions, they formed the Seventh Day Adventist Church.[50]

In 20th Century end-of-the-world predictions, believers resolve cognitive dissonance by telling themselves some version of "God spared the world because of our faith."

As Robert Burton paraphrases Festinger, "The more committed we are to a belief, the harder it is to relinquish, even in the face of overwhelming contradictory evidence. Instead of acknowledging an error in judgment and abandoning the opinion, we tend to develop a new attitude or belief that will justify retaining it."[51]

This feature of the human mind can be deadly to startups. To make an honest pitch, leaders need to know about and protect against this tendency to explain why we are right, even when we are wrong.

Beware False Memory and Confabulation

Your memory is not a hard drive from which you can retrieve exactly what happened. It doesn't work that way.

On January 28, 1986, the space shuttle *Challenger* exploded and disintegrated off the coast of Cape Canaveral, Florida at 11:39 in the morning. Like many people who were alive at the time, I remember exactly where I was when I learned of this event and how I found out. At least, I think I do. My memory is quite firm. I can give details. Bob Nachman, who shared an office next to mine, broke the news to me. I was aghast. Several of us went to Bob Graham's office to watch the news, Bob being the only person in the firm with a television set in his office.

But my memory could be false. It may not have happened that way. I may be interpolating false facts into the story. I don't think so; but how would I know? How would *I* know? How would I *know*?

Well, false memories and confabulation (the mixing up of actual experience with invented material) were known mental problems at the time. And Ulric Neisser used the occasion to conduct a study. The day after the explosion, he asked 106 students to write down how they heard of the explosion, where they were, what they were doing at the time, and how they felt when the heard the news. Three years later, they asked the same people to again write down answers to the same questions. Fewer than 10% of the 106 respondents gave perfectly consistent answers on both occasions, scoring 7 on a 1-7 scale. The average score was 2.95. More than 50% received a score of less than 2.[52]

These "flashbulb memories" remain vivid to us, but, as Kathryn Schulz writes, "research suggests that their accuracy erodes over time at the same rate as our everyday recollections—a decline so precise and predictable that it can be plotted on a graph in what is known, evocatively, as the Ebbinghaus curve of forgetting."[53]

When we are sure we know (or remember) something, our brains make sure we have an almost unshakable conviction that we're right. This is largely the point of Robert Burton's book, *On Being Certain: Believing You Are Right Even When You're Not.* As Burton says, when writing about the feeling of knowing, "conviction isn't a choice."[54]

In other words, you don't get to choose what you think you know or remember.

Your memories of matters important to your startup could also be faulty. And repeating inaccurate memories in a pitch will, if discovered, undermine your credibility. Some investors may think you are making up facts to suit your purpose. Unlike you, most will not know of the false memory studies and will not be inclined to cut you some slack.

This is one reason why it is important to record information in writing and to check and double-check important facts. Asking others to proof your recollections can also help protect against getting caught in an embarrassing false memory.

Mitigating and Protecting Against Cognitive Biases and False Memories

Can you counteract the effects of your own confirmation bias when thinking, writing, and talking about your startup venture?

Yes, you can. Not by yourself. But working together with others, you can bring this elephant under control by taking advantage of truth-finding techniques developed by the scientific community.

Francis Bacon introduced the scientific method in the 17th Century, in part, to counteract the mind's propensity to fall into false thinking. The scientific method has been a tremendous success. It has produced the knowledge underlying enormous gains in our ability to shape, influence, and control the physical and social world through know how and tools (a/k/a technology).

Confirmation and other biases confound thinking and ensnare individual scientists as well; but science as a collective endeavor has managed to subdue distorted thinking by subjecting *all* discoveries, experiments, theories, and findings to rigorous examination and the replication requirement. Over time, scientists not involved in the original research ferret out mistakes, uncover faulty procedures, and discover other flaws in theories and experiments.

A central component of the scientific method is a commitment to the falsification principle: For a proposition or law about the real world to be accepted as true, it must be possible in principle to disprove it with evidence.[55] As Karl Popper, the proponent of falsification as a scientific principle, wrote, "non-reproducible single occurrences are of no significance to science. Thus a few stray basic statements contradicting a theory will hardly induce us to reject it as falsified. We shall take it as falsified only if we discover a reproducible effect which refutes the theory."[56]

The falsification principle reminds me of the need to prove the viability of a new venture by persuading multiple buyers to put money on the table in response either to a Pretotype or a Minimum Viable Product. That your favorite aunt bought one is not good enough.

To mitigate confirmation bias in your pitch and startup generally, consider appointing a devil's advocate to make a contrary case concerning key decisions or conducting a premortem to imagine the worst outcome and analyze how it might have happened.

Devil's Advocate

The term "Devil's Advocate" comes from the Roman Catholic Church's practice for hundreds of years of appointing a "Promoter of the Faith to argue *against* canonizing someone as a saint. It's similar to opposition research that a political campaign will conduct on its own candidate for the purpose of finding out embarrassing facts or worse material in the politician's past.

In decision making, you appoint someone on the team to make the case against the preferred decision.

Determined not to repeat the Groupthink that contributed to the Bay of Pigs disaster, President Kennedy asked his brother Robert to play the role of Devil's Advocate in the ExComm meetings. In this role, Robert Kennedy argued vigorously against possible strategies "in order to force the group to discuss and debate the contingent merits of different courses-of-action."[57]

Before making a major commitment, you want to know everything that might go wrong, all the negative stuff.

A devil's advocate can help protect you and your team against confirmation bias as well as Groupthink, because the technique helps you deliberately find every scrap of disconfirming evidence available and forces groups to think through less-than-rosy outcomes. For example, the executives at Coca Cola might have asked, what if our marketing studies are wrong and the public go along with putting New Coke on the shelves in place of the drink they've known all their lives?

Conduct a Premortem

When performing a premortem on a decision, the team (or one or two members) assume that the result of a choice under consideration was a total failure. The effort bombed completely. They then ask what could have caused the unexpected fiasco.

Using this technique forces those involved to think through what they would like to avoid: Nobody bought the new video game. Why not? The new digital watch had only lackluster sales, not enough to recoup the development costs. What happened?

If asked to produce an explanation, the mind tends to come up with reasons.[58] The premortem technique simply prompts the minds of the participants to explain why the proposed path failed.

While going through the exercise, participants will often discover weaknesses and potential pitfalls that previously escaped their attention.[59]

By doing honest mind work as discussed in this chapter, you not only reduce the risk of being wrong, but you also increase your credibility with potential investors. As I've pointed out elsewhere, experienced Angel and VC investors know that startup ventures come with a high level of uncertainty and risk. When you communicate your awareness of cognitive biases and share what you've done to mitigate them, you will likely put a few more bricks in the foundation of trust you are building.

Section Three: Crafting an Honest Pitch

Chapter 7: Be Honest About Your Goals

To make your pitch as effective as possible, you need (a) to clarify your goals and (b) know your audience. Your audience influences your goals for that interaction; and your goals affect which audiences you seek out.

> "If you don't know where you're going, any road will get you there."
> Lewis Carroll (paraphrased)

Ichiro was excited about an upcoming opportunity to talk to a small group of investors about his foolproof lock. He felt that once they understood that his Widget could transform social relationships and earn millions of dollars, they would want to invest right away. Unfortunately, Ichiro forgot to think through his goals for the meeting. He did not know whether he would be asking them for an investment and, if so, how much he wanted. He wasn't sure whether this should be a get-acquainted meeting or something more. Ichiro did not know what he wanted out of the meeting. As a result, he got nothing.

Before any encounter in which you have an opportunity to make a pitch, you should know your main goals. You might be aiming to achieve one or more of the following ends:

1. Let people know about your venture.
2. Get recommendations on employees, professionals, suppliers, mentors, or others who can help.
3. Obtain feedback on the feasibility of your idea.
4. Ignite the interest of potential investors.
5. Set the stage for in-depth conversations and due diligence.
6. Obtain a commitment for an investment.

Knowing your goals will help you focus what you say and respond intelligently and precisely to your listener's questions. Knowing what you want will also signal that you know what you're doing.

Know Your Audience

The companion piece of preparation is to know your audience. Ichiro should not ask the night security guard for an investment. He probably can't give him one. But the guard might be the right person to ask about whether anyone will buy the foolproof lock Ichiro is developing.

Much of pitching is about making connections and getting feedback on your idea. If you are at a cocktail party, most people you meet are unlikely to be able to help. But almost everyone will have an opinion, usually made up on the spot, about whether anyone will buy Ichiro's foolproof lock.

Tailor your pitch and your goals to the audience you have. Be prepared to ask questions and solicit information and, where appropriate, ask for help. If you are talking to other entrepreneurs, you might want their thoughts on problems you are likely to meet or where you might find help. If you are talking with professionals in the startup world, think about asking for their opinion on how you are going about putting your startup together, which market you should target first (and why), which lawyer or accountant might be a good fit, how much time you will need before you are selling product, and more.

Your Venture's Mission

Over 2,000 years ago, Aristotle wrote, "Every craft and every inquiry, and likewise every venture and decision has the goal of achieving something good." [60]

Smart investors will want to know: What is the good—the benefit to other people—that your venture aims to achieve? What is your mission, your overarching goal?[61]

Your first task, therefore, is to clearly state your overall goal—the venture's mission—in words that will rally people and money to the cause and sustain all involved through the most challenging days of getting there.

Why is achieving that overall goal important? To you? To your potential customers?

Have you developed or are you working on a plan to achieve that overarching goal?

Look beyond money, important as that is. As David Packard, co-founder of Hewlett-Packard, put it in a 1960 speech, "Profit is not the proper end and aim of management—it is what makes all the proper ends and aims possible." [62]

What impact do you see your company having on the world? How will it improve lives, make things better?

Crafting an honest mission statement requires repeated effort over days, weeks, or months. The process of putting your ultimate goal into words focuses your team's thinking and also gets assumptions out into the open. Comments like, "but I thought we were trying to do X," and "What if we said our goal is Y?" emerge in mission statement sessions. The process helps forge agreement, a shared understanding on what the team is trying to achieve and why everyone is putting in the long hours for low pay with low probability of success.

What is Your Cathedral?

Arriving at a quarry on the edge of a medieval city in the 13th century, a weary traveler asks a worker what he is doing. "I'm breaking up rocks, as you can plainly see" the worker replies, miffed at the question.

The traveler moves on and asks a second laborer who says, "I'm earning a living for my family."

When asked the same question, a third worker, dripping with sweat and obviously fatigued, stands up straight and beams as he responds, "You see that cathedral off in the distance? I'm building that cathedral."

In the startup world, only those who are truly passionate about what they are trying to achieve will summon the courage and persistence to endure the hard work and overcome the seemingly insurmountable obstacles and setbacks they meet. This kind of sustaining passion comes from a **transcendent vision** of what can be—what you feel *must* be.

By "passion," I am not referring to the bubbly enthusiasm we often see on Shark Tank, an effervescent excitement that can evaporate when the going gets tough. Instead, I am speaking of a deeper, stiller purpose of building something meaningful to yourself and others.

And this purpose need not be something likely to have world-transforming impact. In the first episode of Shark Tank, Tiffany Krumins pitched an idea for a product that would help small children take medicine drops orally without fear and panic. She had a prototype of an elephant figure that she had used with a few children and a passion for getting the product made and distributed to millions of households where it would relieve the distress of giving kids their medicine. And her passion was clear. Barbara Corcoran said she was investing mostly because she believed in Tiffany.

In an interview given after Emmy the Elephant had become an established product in over 10,000 pharmacies, Tiffany Krumins said:

> Most people think being on Shark Tank is hard. Being on the show was the easy part compared to building a business. If you're an entrepreneur, you better stick to what you're passionate about. There were many times I wanted to give up, and then I thought of the kids; it kept me going. If you don't stick with what you're passionate about, it will kill you.[63]

Infuse your pitch with your passion for your overarching grand purpose. You may want to talk about it explicitly. It may be the kind of vision—like bringing electricity to the hundreds of millions of people who currently have none or helping sick kids take their medicine—that can infect investors, sweeping them up in the purpose of the enterprise, making them want to be a part of the undertaking. Or it may be a modest goal that is important to you and may still be meaningful to others.

But whether or not you mention your vision in your pitch, it will come through that you are passionate about the venture. And knowledgeable investors (and other stakeholders) will notice your passion.

If you’re not building a cathedral, then you’re less likely to get the investments and support your need. More importantly, getting through the inevitable rough spots and setbacks will be more difficult.

If you don’t do the work to name your cathedral, it will be hard to honestly tell investors or anyone else what your venture is really all about.

Chapter 8: The 5 Core Questions

To be able to assess the feasibility of your venture, investors need in-depth answers to 5 core questions:[64]

- What is the **Opportunity** (problem being solved, need met, or desire fulfilled)?
- Does your **Widget work** (i.e., function properly and solve the problem, meet the need, or fulfill a desire)?
- Who (people or entities) will **Buy** your Widget and in what quantities?
- Can your team **Make It Happen**? (Does it have the right stuff?)
- How much **Money** will it take from this point forward to get to a financially sustainable business?

To be sure, you need more information such as the potential size of sales within a given time period, the alternatives available to buyers (competition), the barriers to entry for potential direct competitors (patents, trade secrets such as secret recipes, costs, agility), costs of goods sold and gross profit margins, and more. They will want to know how they will get their money back (your exit strategy). Some of the answers to these questions will come up as you work through the 5 Core Questions.

Thinking through and assembling the information with which to answer these 5 core questions requires a level of honesty and candor that may not come easy to the passionate entrepreneur. In our exuberance, we can easily fall victim to wishful thinking, overconfidence, confirmation bias, and other cognitive impediments, which I discuss in Chapter 6. The failure to be brutally honest with the answers to the 5 core questions will inevitably lead to problems as you move forward. No amount of BS will save you if you get the answers wrong.

The 5 core components of venture success are at the heart of the matter. If you get the answer to each right, then you are more likely to resolve the secondary questions as well.

1. What is the Problem/Opportunity?

No one would buy a mousetrap if there were no mice. No one will buy your Widget if it solves no problem, meets no need, or does not make lives better.

This seems self-evident. But tens of thousands of patents clutter the files of the U.S. Patent and Trademark Office for things tinkerers thought would be nifty, without first assuring themselves that anyone wanted their dumbbell cane, cat wig, subway chinrest, or pizza fork.[65]

To support a business, your Widget needs

(a) to work well,

(b) solve a real problem or meet a need

(c) for enough people or entities

(d) at a price they can afford, and

(e) be better (not necessarily cheaper) than the buyer's alternatives.

To know whether it can do that, you must first know what the problem or need is.

To answer that threshold question well, seek the answers to subordinate questions such as the following:

- How does the customer's pain present itself? Is it something people must deal with every day, occasionally, or rarely? Is it physical, mental, emotional, financial, all of the above?
- How would your widget make life better for the buyer? Would it reduce costs, increase efficiency, meet a basic need (food, shelter, water, safety)? Is it a must have or a nice-to-have?
- Is the customer acutely or only vaguely aware of her need or perhaps not at all?
- How does the customer cope at the moment?
- How costly in time or money is the customer's present solution or lack of solution?
- Has anyone else tried to solve this problem? If so, with what success?
- How much relief will your Widget provide?
- How will your solution make life better, easier, less costly, more prosperous, or enjoyable?
- By how much will your Widget raise the level of happiness for customers and those around them?
- Will your Widget cause other problems? For example, what negative side-effects for individuals or communities (dirty air, polluted water, increased vulnerability to disease, release of greenhouse gasses, social friction, etc.). The iPhone gives people a pocket computer and telephone but also contributes to frenetic work patterns, making employees and professionals available 24/7.

- Will your Widget indirectly help solve other problems? For example, solar panels can help solve the no-electricity problem for hundreds of millions of people *and* they will also help reduce or limit greenhouse gas emissions.

The question about the buyer's awareness of her problem or need deserves special attention. Many of our most successful inventions solve problems people did not know they had. They supply a benefit people were not actively looking for. The Xerox copier, the iPhone, and the automobile. Steve Jobs put it this way:

> Some people say give the customers what they want, but that's not my approach. Our job is to figure out **what they're going to want** before they do. I think Henry Ford once said, 'If I'd ask customers what they wanted, they would've told me a faster horse.' People don't know what they want until you show it to them. That's why I never rely on market research. Our task is to read things that are not yet on the page.[66]

But building solutions for problems people don't know they have is the high-wire act of entrepreneurship. It may be potentially the most lucrative venture, but it also requires enormous amounts of money and entails the greatest risk.

When answering questions about the opportunity, be careful not to overstate the problem. Some inexperienced entrepreneurs talk as if everyone on earth and possibly Mars has the problem for which their Widget is the solution. That's not likely. And even if it were, not everyone on earth can afford to buy their Widget.

Overstating the extent of the problem relates directly to the Universe of Buyers (a/k/a the Market) and leads to statements like "if we get only 1% of the market, we'll be rich."

Entrepreneurs sometimes invent a Widget first and then start looking for the problem for which their Widget is the solution. When this happens, they can easily fall into the hammer and nail trap. You know, for the person whose only tool is a hammer, all the world looks like a nail.

It will save you untold hours of grief, help you make a better Widget, and make you much more persuasive when giving a pitch if you take the time to (a) state the problem as precisely as possible, (b) identify those people or entities that have the problem, (c) explain exactly why it is a problem for them, and (d) show how your Widget solves that problem better than any alternative available.

For example, this book grew out of a belief that Angel and VC investors encounter too many pitches laden with various forms of BS and careless inaccuracies, leading to grief for the entrepreneur (no deal), the investor (deal but later discovery of false premises and failure), or both. The dishonesty problem lowers the level of trust in the startup world generally and makes individual deals more costly and precarious for both investors and entrepreneurs. This book alone will not solve the problem, but it could contribute to the solution by raising awareness among the people affected and by showing them how to be meticulously honest in their communications. Every entrepreneur can afford it (there is a free version), and it is as easy to obtain and use as available alternatives.

At the outset, therefore, you need to be honest with yourself about what kind of widget you are building. Will you have to create the market for it, or will people instantly recognize it as a solution for a problem they have every day or is it somewhere in between? Perhaps you can't really know until you build it and try it out with a few early adopters, which is what Eric Ries's Minimum Viable Product is about.[67]

In any case, your investors (employees, lenders, equity buyers, creditors) will want to know whether you are solving a problem people know they have or supplying something altogether new that will change the way they live.

To answer the Opportunity/Problem questions, you need to be able to feel, taste, and empathize with the customer's pain or need. You need to feel their relief when they get your solution. In some cases, entrepreneurs develop new products or services to meet a need they have personally experienced. The problem will have been the germ of the invention or idea in the first place. For example, I once had an idea for the perfect paper clip remover. The standard device at the time pulled out staples, but the staples often fell off and dropped into the photocopier, causing it to jam. My idea was for a device that would slide under the staple, pull it out, and hold on to the staple. But I did not know anyone else was aware of this problem until, a few years later, I saw a staple remover like the one I had conceived for sale at an office supply store.

Part of understanding the problem involves finding people with the problem and how it affects them. To use the solar technology example, the lack of electricity is a problem not only for the hundreds of millions who heat and cook with sticks of wood and cow dung; but it is also a problem for government officials, NGO's, independent power producers, utility companies, and others seeking to deliver clean electricity 24/7to the end users. Understanding the problem, therefore, means understanding how this particular problem affects each of those groups of people or entities and how your Widget will help them.

Talking honestly about the problem, therefore, involves getting as much reliable information as possible (having a reasonable basis for your beliefs and knowing what you're talking about) and sharing that information in a straightforward manner.

The most common vice in this context is guessing, making it up, assuming you know more about the problem than you do. No one buys a solution for a problem they don't have. If your pitch doesn't reflect a deep understanding of the problem based on real evidence, it is probably not as honest as it needs to be.

I am dwelling on whether others perceive the problem the way you do because misunderstanding the Opportunity/Problem and whether it is a problem for enough buyers may be one of the biggest sources of startup failure. It is the problem for which the *Lean Startup Method* by Eric Ries and *The Right It* by Alberto Savoia provide two helpful solutions. Entrepreneurs gloss over it at their peril.

2. Does Your Widget Work?

At an elementary level, the new product or service must do what it is supposed to do. It must solve the problem you've found.

The electric light bulb was a great idea, but until Edison discovered a filament that would not burn up, the light bulb did not work.[68]

To work in the startup context, it must

- solve the buyer's problem
- at either a lower cost than alternatives or
- better than alternatives.

To properly assess whether your Widget works, you need to know whether it functions well enough for first adopters. Is it a minimally viable product (MVP).[69] You need to know what it costs to make and what you buyers will pay. Can the intended buyers afford it? How durable is it? How long will it last? To honestly say that the product works (or will work), you need the answers.

This presents a problem for early-stage, pre-revenue startups. If you are going to ask others to help (through investments, partnership, employment, or otherwise) before you have a minimally viable product, then you need to make a compelling case for why the proposed product is feasible. If you are trying to find the right filament for the light bulb, this task is daunting, which means it also gives rise to temptations to oversell the idea, to assert with extreme confidence that "there is no way this won't work."

Your proposed Widget may fall short in several ways. First, it might not be technically feasible. Second, even if feasible, you might not have the skill or resources to make it work. Third, the materials needed for viability might not be available. Fourth, it might be too expensive for all but a tiny speck of the market.

As with so much else, it is better candidly to share where you are in the process, what you have achieved, what you don't yet know, and how you think you will be able to solve the remaining problems than to fudge any of this. If the idea solves a sufficiently important problem, some entrepreneurial investors (a/k/a angels) will want to get involved. And if no one responds positively, this may show that you are not proposing a solution for a problem that is sufficiently important to take the risks and invest the time and money associated with developing the product or service.

Therefore, you and your team need to know where you are in the process and how far you have left to go before you will have a commercially viable product. This may seem obvious, but unless you make a conscious effort to spell out everything that has been done, what is left to do, and what it is likely to cost, you will have only a vague idea of how close you are to a minimally viable product.

Be honest about where you are in the process. If you have fleshed out the idea, perhaps have a drawing or two, but have no model, let the listener know that. Being transparent about the state of development builds credibility. It can also lead to connections with people who can help move the project forward.

Beginning entrepreneurs often guard their ideas for fear that someone will steal them and create their product before they do. This fear also keeps them from sharing how far along the development is. In most cases, this fear is unfounded. The entrepreneurial hurdle is not having the idea. It's turning the idea into a product and then a business. The challenge is execution, making it happen.

Rather than stealing your product, companies are more likely to reject it outright. Over 20 companies rejected Chester Carlson's electrophotography process before he finally connected with an institute that helped him eventually develop the 914 Xerox machine.[70]

Theft of intellectual property is a real problem, but it usually occurs *after* the entrepreneur has developed a commercially viable product, by which point you should have one or more patents in place. Robert Kearns' intermittent windshield wiper illustrates the point. Ford and General Motors stole the technology only after he had a working prototype and several patents, which allowed him eventually to recover damages for patent infringement.[71]

When They Say "It Won't Work"

If you are making something entirely new and not a better version of an existing product, you might meet investors who say, "It won't work." They then tell you why it will fail. In a better version of this encounter, the investor asks you to list all the potential problems with your Widget and how you plan to solve them.

Instead of arguing with the naysayers (whom you are unlikely to convert), take the opportunity to find out about their thinking. "Could you let me know about your thinking on that?" "What about our Widget makes it an impossibility?" or simply, "Please tell me more."

Do not debate the issue. You are not likely to persuade them in a brief conversation. Evidence, not argument, is your friend.

This is an opportunity to learn something you may not know. Moreover, attentive listening helps build a relationship of trust. You are showing respect to the investor. No matter how negative they may be now, they could be in a position to help you now or later.

And, of course, they could be right. (Don't waste your time or money trying to invent a perpetual motion machine.) In that case, be grateful for their wisdom on the subject.

No matter what, **always be constructive**. You can explain how and why your Widget will, in fact, work; but this should always be a constructive comment. (Collaborative negotiation techniques come in handy here.[72])

The second, more valuable investor question, is some version of "tell me about the potential problems with your Widget. What are the risks that it *won't* work?"

Answering honestly requires preparation on your part. If you're *not* prepared, then the answer should be, "We don't yet know."

But you should have given a lot of thought to this question. You want to go to the moon. What could go wrong? You're planning to build a high-end electric car. What are the challenges? What problems could stop the show? What problems have you not yet solved? Why has no one else solved this problem?

Show If You Can. Talk If You Can't.

Investors (and everyone else) want to see your Widget work. If you can bring it with you, do so. Show it in action. Assuming it works, almost everyone will be like children unwrapping presents. After all, they're getting a sneak preview of something that could be big, very big.

If you can't bring it you with you, make a video. This is less impressive, particularly at gatherings of investors, many of whom will be too distracted to look at your moving pictures.

Least impressive is a picture or drawing of your new Widget. But it's better than words alone. The mind craves pictures. Try not to disappoint.

As much as possible, let your Widget do the talking. Don't chatter away while the investor is looking at it. Wait. Listen for her comments and be overjoyed when she asks questions.

If you can't demonstrate or show a picture of your Widget, the next best thing is to describe it so vividly that your listener can't wait to get one.

The "**you-know-how-when** . . . " technique is useful, particularly in an elevator pitch. "You know how when you'd like to know what your friends have been up to, but you don't want to send an email, call, or write a letter. Well, when it is fully operational, The Facebook will allow everyone to post pictures and record activities on a website they can share with their friends—all without charge."

"You know how you'd like to keep track of your credit card expenditures without having to login to the card issuers website? Well, our new app—Current Balance—will give people access to that information and more from their cell phones."

For physical objects, a vivid description will include the problem solved, the exact dimensions of your Widget, how it is deployed, what specific work it does, and more. For digital technology, a vivid description will include the problem solved, key functions, what it costs to make, what it will sell for, how fast it works, how much digital space the program requires, what its operating speed is, information on memory usage, and more.

But if it does not yet exist, be careful not to leave the listener with the impression that it does. In that case, use expressions like "when we get it built (finished), we <u>expect</u> that [or our data indicate that] it will . . ." This is all part of building credibility by conveying the true state of things in your venture. Most angel and VC investors know all too well that entrepreneurs return to the drawing board repeatedly before they get it right. Understatement is more effective than hype or grandiosity.

3. Will People Buy It?

No buyer; no business.

No buyer; no business.

No buyer; no business.

Entrepreneurs are excited about the new Widget they have brought to life (or want to). Understandably, they assume everyone will want to buy it. After all, their team loves it and can see its problem-solving potential.

Alas, it does not work that way. Steve Blank, Eric Ries, and others in the Lean Startup tradition have articulated an insight that entrepreneurs and investors disregard at their peril: The purpose of a startup is to develop a product that people will buy.[73]

The "people will buy" part must be more than a supposition, more than a guess, more than an assumption. What is our strategy for achieving product/market fit? The only way to know for sure that people will buy a product is to get evidence that people actually paid money for it.

Market-related questions include the following:

- How big is the market for this product or service? (How much money is currently spent in this market sector? How many buyers are there?)
- What is your competition? (This means any alternative—including buying nothing—that buyers have to your Widget.)
  Saying “we have no competition” will destroy your credibility with experienced investors. Buyers almost always have the alternative of doing nothing; and if they don’t, a solution of some kind will already be available.
- What are the barriers to entry for competitors? Can others do what you’re doing?
- Which existing firms might try to copy what you’re doing or do it better?
- What kind of job does your Widget do in this market? Put differently, what problem does your Widget solve for the buyer?[74]
- How do you know your target buyers will buy your Widget? What proof of demand do you have?
  - What data have you gathered that supports (or negates) your answer?
  - Have you gotten out of the building to speak with real buyers?[75]
  - What other relevant information do you have?
- Have you tested a pretotype?
- Do you have a working prototype?
- Have you built and sold a Minimum Viable Product? If not, at what point in your plan will you do this?
- What are buyers currently paying for the most popular alternative to your Widget?
- What problems might you see with buyers? To paraphrase Yogi Berra, if people don’t want to buy your Widget, how will you stop them?
- What is your Plan B if your Widget doesn’t sell?[76]

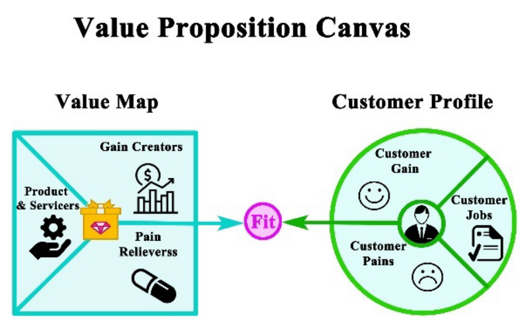
Before changing its 99-year formula for Coke, the Coca Cola Company conducted extensive market studies, including taste tests, surveys, and focus groups, that established a preference for the new, sweeter Coke among roughly 85% of participants.[77] It wasn't until they discontinued old Coke altogether and rolled out the new Coke across the nation in the spring of 1985 that Coca Cola executives learned to their horror that Coke buyers weren't buying the new stuff. Within three months, the company reverted to what we now know as Coke Classic, the original. Nothing--absolutely nothing—replaces real buyers either buying or not buying what you are making.

One of the principal honesty problems when entrepreneurs pitch their ventures is the failure to find out whether there is a market for what they propose to make. This could be an important cause of startup failure.[78]

Put differently, entrepreneurs must be rigorously honest—with themselves first and then with others—about the state of their knowledge about market acceptance. As Steve Blank puts it, "relentless execution without knowing what to execute is a crime."[79] Not knowing what to execute is the result of not knowing what the customer will buy.

How do you discover whether anyone will buy what you're building before it's ready to sell? Here are some suggestions:

First, use the value proposition canvas developed by Alex Osterwalder and others at Strategyzer to structure your thinking.[80] This helps you line up your customers' needs (pains) and the jobs they do with the ways your Widget relieves those pains or creates gains or both. The process helps you think in terms of benefits to buyers instead of the features of your Widget. (The buyer may not see all of these features as benefits.)



Shutterstock license

Second, pretotype it. Not prototype. *Pre*totype.
Create a sufficiently detailed description, possibly including a mockup or realistic picture and then ask people to put down a deposit for a discounted version when you get it built. A pretotype has value to you, only if people commit actual money.

Alberto Savoia first called this proof-of-market method *pretendotyping* but then shortened it to pretotyping.[81] Crowdfunding platforms like Kickstarter can work for this purpose. If you don't get enough early adopters to put real money at risk, refund their money and thank them for helping out (perhaps with a small gift). Pretotyping is a good way to prove that real buyers exist. Be careful, however, never to suggest that your Widget exists if it doesn't. Savoia discusses the rationale, process, and ethical guidelines in his book, *The Right It.*

Third, if you're further along and have some market traction, build a Minimum Viable Product (MVP).[82] Here is the cycle: Build, try out, learn. Repeat.

Build a good enough version of your product or service to sell. Sell it to some early adopters. Get their responses. And revise the product/service as appropriate.

In Eric Ries's words, you need to get out of the building and actually meet with customers. When he was developing Quicken, Scott Cook beat the streets talking to people about their personal bookkeeping problems. Then when he had a product good enough to sell—an MVP--he interviewed the first customers to see what they liked and didn't like about Quicken. They went through several iterations of Quicken in response to customer interviews. Intuit may have been the first to systematically conduct such usability testing.[83]

If you don't do this kind of work to discover whether anyone will buy what you are building, you are likely to fill in the missing information with guesses and speculation. Unless you consciously stop yourself, you might well make statements about "the market" that you cannot support because you don't have your own data on which to base them.[84]

If you don't know, because you don't yet have a saleable product, it's better to say something like, "We have a working hypothesis that this product will meet the needs of X number of buyers and that a large percentage of them will buy it. We have conducted some surveys to see what potential buyers say, and the results are positive. But until we have the product built and are able to start selling it, we won't know for sure. Your investment will help us nail down the answer to this question."

If you say something like this in a pitch to investors, several things might happen. Some investors will say, "Let me know when you have a working product that people are buying." They might miss out later because once you are that far along, you may not need them. Others might ask, "Will my money be down the drain if your hypothesis proves to be wrong?" Some might congratulate you on your candor and, depending on their interest in what you're doing, say they might want to get involved.

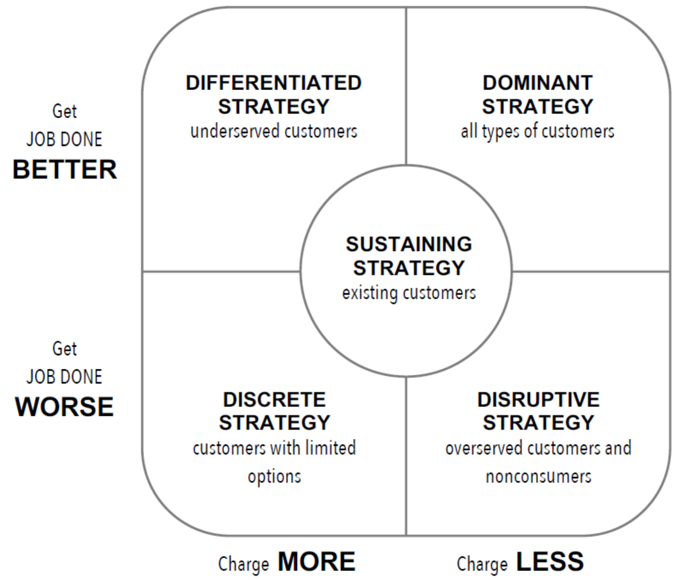
In any event, you and they will be better off than if your head is full of mush and your mouth full of speculation and hype. And, by the way, the best answer to the what-if-your-hypothesis-is-wrong question is "We're not sure. If buyers tell us they don't like our first MVP and we still have money, we can pivot to something they tell us they would buy. We'll use what we've learned to modify the product until we get it right or run out of money, whichever comes first."

Or you can try a different marketing strategy. Quicken was not getting traction despite Scott Cook's repeated efforts to find reliable buyers. He had borrowed all he could from his parents and maxed out his credit cards. There was only $74 left in his bank account.

In desperation, he used that last chunk of money to place a newspaper ad developed with a marketing friend. The ad worked, and Quicken became Intuit, the billion-dollar company we know today. [85]

Sometimes the product is already good enough. You might just need better ways to find the buyers whose pain it solves.

You should also be able to explain whether your Widget solves a problem better than alternatives at a higher price, solves it better at a lower price, worse at a higher price, or worse at a lower price. Tony Ulwick at Strategyn summarized this market segmenting aspect of how products and services do jobs in his book, *Jobs to Be Done.*[86] According to Ulwick's frame, products or services either



1. do a job better than alternatives for a **higher** price (e.g., Nest's thermostat, Apple's iPhone),

2. do a job better than alternatives for a **lower** price (e.g., Google Search, Netflix),

3. do a job **worse** than alternatives at a higher price (e.g., food sellers beyond the security check in at airports), or

4. do a job **worse** than alternatives at a lower price (e.g., Google Docs, TurboTax).

If you know where your Widget falls within this matrix, you will be better able to test the market, to develop product-market fit, and to explain it to investors.

4. Can your team make it happen?

Every scalable startup must make two things: Thing 1 is the Widget you will make and sell to buyers. Thing 2 is the team (eventual corporation) that makes and sells Thing 1.

Most resources in the startup world focus on products and buyers. Much less attention is paid to *building* the organization that makes it happen. Part of this is the boring stuff: Setting up an accounting system and managing the money. Choosing the appropriate legal form (limited partnership, LLC, corporation). Putting an incentive stock option plan in place. This part of building the organization is about as much fun for most people as reading the instruction manual before assembling a complicated piece of equipment. But someone must do it.

The second aspect of building the company concerns the **character of the company**—how people the company will relate to and work with each other and how the company will relate to and work with everyone else. Investors want to know that you are building a company in which excellence and integrity are at the center of everything it does.

Thus, investors want to know that *both* Thing 1 (the Widget) and Thing 2 (the company) will work. And they start with Thing 2—YOU and your team. If your team can't make it happen, then Thing 1 doesn't matter.

At the outset it's just you and perhaps 1-2 other people working in a dorm room, a garage, a basement, or a cubicle in an accelerator. How you get along, what your values are, how you solve problems and resolve disputes, and the mission that fuels your passion are all factors in the kind of team you become and whether you develop the right stuff to make it happen.[87]

As you get closer to an MVP, you will be bringing on other people, either as contractors or full-time employees. How you develop the basic operating system for the initial team (its culture) could affect the character of the business for years, perhaps decades to come.

So, it matters who you are (the character of the founding team) and what the team can do.

Credentials are useful indicators of possible competence but are much like resumes (at least in the US). The best proof of what you can do is actually *what* you have done and are doing now. So, instead of listing past positions and degrees, tell investors what the core people on your team are actually doing to advance the venture. What jobs do they perform? What parts of the team's accomplishments did they lead?

Prepare to answer questions such as the following:

- Who is on your team?
- What relevant experience does each team member have?
- What does each team member contribute?
- What are each team member's particular skills and strengths?[88]
- What will you do if a key member leaves?
- What is your compensation package for key team members?

Investors want to know how you will build a company that will build the Widget and capture a sizeable market. But neither you nor they can map out the answer in great detail at the pre-revenue stage. There are simply too many unknowns—both known unknowns and unknown unknowns. This is one reason why managing partners in venture capital firms often disregard the hockey stick financial projections sometimes found in business plans.

However, investors *can* assess and deeply want to know about, the people who are in charge of making it happen. I call them the make-it-happen team. That's you.

Do you have what it takes? Are you honest, diligent, competent, persistent, passionate, fair, kind, constructive, and cognitively humble? Will you see it through?

You may not be able to sketch out all the details of how you're going to build a successful business (we should make the effort anyway), but you can talk about the people who will use the investor's money and other resources to make it happen.

After raising the necessary money, hiring the crew, buying the *Endurance*, and stocking provisions and equipment, Earnest Shackleton launched The Imperial Trans-Atlantic Expedition on August 8, 1914, intending to cross the South Pole with two teams from opposite sides of the continent. The expedition failed to achieve its purpose after the *Endurance* became trapped in and later crushed by pack ice. We remember the adventure today for the heroic survival and return to England of Shackleton and every member of the crew despite outlandishly slim odds. To achieve this remarkable feat, Shackleton either found a way or made one.[89]

Investors are looking for that kind of ingenuity, problem solving, and perseverance in in startup teams, particularly their leaders. They want someone so passionate, so tenacious, so committed that she will use every ounce of strength and every available resource to get the job done. If the venture fails despite these efforts, well, not every startup succeeds. But investors want to know that you have given it everything you have.

In his famous TED Talk on pitching to investors, David Rose, founder of Gust and an angel investor, says the number one thing investors want to know about is YOU. Do you have what it takes? And the first question on their minds is whether you and your team are people of integrity.[90]

But as Rose says, you can't just walk on stage and start talking about what wonderful people you are. Unless you've successfully started one or more ventures, listing your credentials doesn't help much either.

So, how do you convey that your team has the right stuff?

Answer: deliver a superb pitch superbly. You can show that you have put the time and effort into getting this part done right. A great pitch delivered well suggests that you do everything else well.

Part of that pitch should be a summary of how you and your team will go about developing the product and creating the business that sells it.

"But you said it's not possible to lay out the details of the future business at the pre-revenue stage. What gives?"

A detailed plan with every step filled in from beginning to end is not possible at this stage, to be sure. But you can always know **the next step** and possibly the one or two following that one. And you can always know the ultimate goal.

Be ready to talk about your overall goal, your next step and possibly the one after that. That may be the best you can do.

5. How much money do you need?

This question has three parts:

1. How much money are you looking for now?
2. How much money will you need before the venture is generating revenue?
3. How much money will you need before the venture becomes profitable?

In early-stage ventures, the correct answer to questions 2 and 3 are probably, "We don't yet know." Even well-established major corporations like Wal-Mart or Apple have difficulty budgeting for more than a year.[91] There are just too many unknowns to say these numbers with any precision. In 2019, few people outside the Center for Disease Control were expecting or planning for a major pandemic in 2020. Uncertainty is a fact of life.

A pre-revenue startup is still proving the technical and commercial feasibility of its product, establishing a market, and assembling a team. You might have a general ballpark idea of how much money you will need before the startup has buyers and generates revenue. Investors will be surprised if you can make a well-founded estimate of the money you will need beyond this round. Don't make a wild guess.

As to the money you need now, you must **know the answer cold**. It needs to be an exact amount. You must know precisely what you will spend it on. And you must know how far it will take you.

Be ready to state the exact amount of your ask. Saying, "We're looking for between $350,000 and $500,000" is a credibility killer. If your round gets oversubscribed, rejoice. You will need the surplus eventually. But at this moment, say firmly, "We're raising $500,000 in this round."

State what you will do with the money. "We have budgeted $50,000 to hire an additional programmer, $35,000 to bring on freelance designers, $30,000 for office overhead, etc." The investor wants to know that you will put the money to good use, and she may want to dig into the weeds on this before she hands over her check.

State how far the funds will take you. Does $500,000 buy you 6 months, 9 months, or a year? Subsumed in this part of the question is your burn rate, which is the amount of money you need every month to keep moving forward. Is it $10,000 a month, $15,000, or some other number? Is any part of the burn rate discretionary? That is, can you still keep the lights on with a lower amount if you had to?

State what milestone(s) you can achieve with the $500,000. Will you have a Minimum Viable Product ready for buyers? Will you have completed gathering initial information on buyers? Will you have a marketing campaign ready to go or underway? What are the goals you expect to achieve with the money you are raising?

Be prepared to describe your plan for follow-on funding. If you're raising money from friends and family or angel investors at this stage, do you plan to bring in a venture capital firm for the next round? Have you identified or possibly even spoken with VC's that might be compatible with your venture? How do you plan to bring them into the conversation?

In addition, you should be prepared to say within a few hundred dollars how much money you've spent up to now. A blank stare on this one suggests that you don't have your financial records in order or are not personally on top of it. Neither is good.

Investors will want to know how they will get their money back with a profit. What is your exit strategy? It may be too soon to talk about this, in which case that is what you should say. But you should start thinking about whether and how the business will scale, whether you plan to sell it to a larger company, take it public, or have some other liquidity event.

Investors need their money back. Part of your responsibility as a steward of *everyone's* investment (friends, family, employees, investors) is to develop a plan that will give them a decent, perhaps great, return.

Chapter 9: The Honest Elevator Pitch

The purpose of the elevator pitch is to pique the listener's interest in your venture within 30 seconds, possibly engaging her in a conversation that leads to a follow-up meeting or email exchange.

An elevator pitch is an art form, like a Zen koan or a sonnet or a sonata. It should include three parts: (1) the value proposition, (2) your goal, and (3) why the listener will find your venture worth supporting.

The Value Proposition

The value proposition states the problem you are solving, your solution, and who will benefit.[92] You must convey a solid grasp of the problem and how your solution helps specific types of people or entities. It helps to have prepared a summary, but you need to be able to say it in different ways.

Suppose you are working on a venture that will ship all the ingredients for a balanced meal to the buyer's door that they can prepare in their own kitchen. You might state the value proposition like this:

> Because they often leave work late, busy professionals don't have time to shop for meals at home. As a result, they eat too much restaurant or processed food. Our company will ship all the ingredients in the right amounts for a delicious, well-balanced meal that the buyer can have on the table in 30 minutes.

Does this statement accurately describe the **problem** being solved (opportunity being seized)?

Does it tell us who will **benefit** and how?

Does it identify the **buyers**?

The better your value proposition succinctly answers these three questions, the more useful it will be.

The statement could be improved even more for investors by stating the delivered price to the buyer and the cost of goods to the seller:

> Because they often leave work late, busy professionals don't have time to shop and cook meals at home. As a result, they eat too much restaurant or processed food. Our company will ship all the ingredients in the right amounts for a delicious, well-balanced meal for two that the buyer can have on the table in 30 minutes at a delivered cost of less than $25 dollars with a 60% profit margin.

Immediately, the listener has critical information with which to assess whether further conversation is worthwhile.

A startup can never become a sustainable business if the price is too high or the profit margin too low. Expenses must be paid. Growth must be funded. Investors know this and want to know as soon as possible whether you know it too and whether you are on top of this aspect of business. (It is dismaying how often the investors on Shark Tank must extract these last two bits of information from entrepreneurs like a dentist pulling wisdom teeth. It's even more disturbing how many entrepreneurs on the show have only a vague notion of these numbers.)

If you don't have the price and margin numbers ready, be prepared to say so honestly. It really makes a bad impression to equivocate with expressions such as "about" or "around" or "approximately." If you don't yet know, you can say that you are working on those numbers but have not yet completed the process. If you know, you can say that the price will be between $X and $Y; but don't guess.

Your Objective and Radio WIIFM

At any given moment, a startup needs money or employees or expert help or marketing assistance—perhaps all of the above. Knowing as much as possible about your audience will help you frame your elevator pitch in terms that appeal to that person's interests. You need to convey your goal and answer the listener's implicit question: What's in It for Me? (We're all tuned in to Radio WIIFM.)

If you're in a room full of investors, your goal will likely be to find people able and willing to help fund the venture. For the food company, this part of the elevator pitch might look something like this:

> Based on our assessment of the market, we believe our venture has the potential to be a multimillion company within a few years. To launch the initial phase of operations, we're looking for a total investment of $500,000 for 5% of the company.

The second sentence states the "ask" clearly and tells the investor (a) how much of the company she can buy and, implicitly, (b) the company's current valuation. (Experienced investors know to divide the price by the percentage to get the total valuation: $500,000/.05 = $10,000,000.)

The first sentence tells the listener about the entrepreneur's belief concerning the potential size of the business. This version is rather vague. "Multimillion dollar company" could mean as little as two and as much as hundreds of millions of dollars or even more. The more honest precision you can provide, the better:

> Based on a market study we completed two months ago, we believe our venture has the potential of reaching sales of $12 million within five years based on a total addressable market of 13 million professionals in 6 metropolitan areas. To launch the initial phase of operations, we're looking for a total investment of $500,000 for 5% of the company.

This "market study" had better be a true study with verifiable empirical data presented in a testable form. If someone conducted a few google searches and just estimated the number of professionals who live in the 6 areas and then guessed about whether they have any interest in having ready-to-cook dinner kits delivered to their homes, it's not a study. It's a "we guess that."

On the other hand, if it is a study that includes the results of customer interviews or even tests, then be prepared to share the details of the study.

The 30-second Elevator Pitch

Ideally, you can deliver your elevator pitch in 30 seconds. Consider the following pitch for the read-to-cook dinner business:

> Because they often leave work late, busy professionals don't have time to shop and cook meals at home. As a result, they eat too much restaurant or factory-cooked food. Our company will ship all the ingredients in the right amounts for a delicious, well-balanced meal for two that the buyer can have on the table in 30 minutes at a delivered cost of less than $25 dollars with a 60% profit margin.
>
> Based on our assessment of the market, we believe our venture has the potential to be a multimillion company within a few years. To launch the initial phase of operations, we're looking for a total investment of $500,000 for 5% of the company.

That pitch takes 45 seconds to deliver at a relaxed pace and identifies the buyers, the buyers' problem, and the proposed solution. It also tells the listener the company's current objective and suggests how the listener might benefit by investing. But it's 15 seconds too long. Here's a shorter version:

> Busy professionals eat too much unhealthful restaurant or factory-cooked food. Our company will ship all the ingredients for cooking a two-person meal in 30 minutes for less than $25 dollars with a 60% profit margin.
>
> We believe our venture has the potential to be a multimillion company within a few years. To launch the first phase of operations, we're looking for a total investment of $500,000 for 5% of the company.

That pitch comes in at 29 seconds and, while it loses some of the nuance of the previous version, it has the essential ingredients of an elevator pitch and says enough to excite the interest of an investor. It will lead either to questions or some version of "That's nice. Good luck with that." It quickly separates people into those who might want to help and those who are not interested. And it lays a foundation for a conversation with the former.

Once you have crafted the basic pitch, you can work on variations for different settings or simply to test for effectiveness. For example, you might change the ready-to-cook dinner pitch as follows:

> When it's fully operational, Ready-to-Cook Dinner Kits will ship the ingredients for a two-person meal ready in 30 minutes. Our target buyers are professionals who eat too much unhealthful restaurant or processed food because they have no time to shop. The kits will generate a 60% profit margin at a delivered cost to customers of $25 dollars.
>
> We believe this will be a multimillion company within a few years. To launch the initial phase of operations, we're looking for a total investment of $500,000 for 5% of the company.

By writing out the pitch and creating different versions, you start developing a mastery of the content, avoiding the stilted feel created by reciting a memorized text. Moreover, knowing the content enables you to adapt it to the interests of your listener.

If finding the funds is the most important goal at the moment, you may want to share your investment needs even with people not likely to invest but who can introduce you to others who can. If you already have the money and are looking for talented employees, the last sentence will be different:

> We believe this will be a multimillion company within a few years. At the moment, we're looking for a cracker-jack financial whiz to join us as we build this exciting business.

By its nature, an elevator pitch can't say everything. It sets the stage for a deeper conversation.

"You Know How When . . . "

Another variant frames the elevator pitch as a story starting with "you know how when . . . "

> You know how when you finish a long day at the office, have nothing much to eat at home, and are faced with the prospect of eating at a restaurant or picking up a heat-and-eat meal at the deli or grocery store? Well, Ready-to-Cook Dinner

> Kits will change that, making it possible for you and millions of other professionals to cook a delicious, nutritious meal for two in 30 minutes without having to shop for a single ingredient. Everything—vegetables, spices, seasoning, meat, sauces—is all in the package with clear cooking instructions all for only $25 delivered to your door.
>
> Based on a market study we completed two months ago, we believe our venture has the potential of reaching sales of $12 million within five years with a total addressable market of 13 million professionals in 6 metropolitan areas. To launch the initial phase of operations, we're looking for a total investment of $500,000 for 5% of the company. Once operational, our company could make a 60% profit margin on the kits and looks forward to solid growth.
>
> To launch the initial phase of operations, we're raising a total of $500,000 for 5% of the company.

This approach pulls the listener in as a participant in the pitch, making it clear how Ready-to-Cook Dinner Kits addresses a problem she has or may have experienced in the past. It states the problem, the solution, the market, a bit of the business model, and the ask. It takes more time to deliver, but by moving the listener from observer to participant in the story, it increases the chances of engagement. (Of course, if she responds with some version of "That's never been a problem for me" or "What's wrong with restaurant food?" you may need to explain that millions of professionals have precisely this problem.)

Listen and Make Notes

The elevator pitch provides an excellent opportunity to learn from a wide array of experienced people. Once you have answered the investor's question about what your company is trying to do, make the best use of your active listening skills to get their advice.

It helps to use a small notebook, the back of the contact's business card, or smartphone app to record what you heard as soon after the conversation as possible. Recording a note is particularly useful when you're in a crowded room at an investor conference. "I just spoke with Joan Sperling of Widgets Venture Capital, who likes the ready-to-cook meals concept and offered to connect me with Sam Kwaitkowsky in her firm. She said Sam has a background in the food industry and might want to learn about our venture. Send her a reminder email tomorrow morning with a copy of the pitch deck."

Later you can collect and organize this information in internal memoranda to share with others on the team and to remind you to follow up with people who showed a more than casual interest.

Chapter 10: Talk Honestly About Your Competition

Every Startup Has Competition

Some entrepreneurs confidently assert: "We have no competition." This is a mistake. It will turn off numerous Angel and VC investors. Others will know instantly that the eager entrepreneur is a newbie.

Our fresh-out-of-the-gate founder may think: "No one is doing precisely what we are doing or doing it the uniquely new way we are doing it. Therefore, we have no competition."

That's the wrong way to think about it. The competition question is really asking, "What **alternatives** do the prospective buyers have to what you are offering?"

There is at least one alternative to every product or service: doing nothing. Those who do nothing live with the problem, accepting whatever pain comes with it.

Think about your last airplane flight. You check in, go through security, and are now in the gate area waiting for your flight to be called. You're thirsty. At the next vendor, you learn that a bottle of water costs $6.95. A beer costs $12.[93] "That's outrageous," you think. "Forget it. I'm not *that* thirsty."

Refusing to buy is doing nothing.

Probably the biggest competitor to this book is doing nothing. You're reading it. But many entrepreneurs never think about trust or the need to be thoroughly honest. The title and cover do not resonate with them. No one recommended it to them. They might think, "I'm already honest. I don't need an instruction manual." Or they don't believe they have the time to read it. Those entrepreneurs won't buy the book or download the free copy. They will do nothing.

Other than doing nothing, your target buyers likely have other alternatives to your Widget. Do you know what they are? How well do you know them? What does your research show about how well they solve the problem your Widget will solve? How much residual pain does your target buyer have after using Alternative A, Alternative B, or Alternative C?

To answer questions about competitive alternatives to your Widget honestly—that is, without guessing or fudging—you must know (a) everything you can about your customer's problem, (b) all the ways in which your Widget solves that problem, and (c) everything that each viable alternative does and doesn't do in comparison.

Of course, this requires work on your part. You must learn everything you can about a, b, and c.

Not doing the work may be one of the biggest contributing factors of BS in the startup world.

Barriers to Entry

When you've finished explaining why your Widget will trounce the competition, someone may ask, "What are the barriers to entry?" In other words, once you've proven the market, how difficult will it be for copycats to do exactly what you're doing, perhaps even better and at less cost than you?

Again, you must thoroughly understand this problem—particularly from the investor's perspective. Don't be glib or superficial about it (a hallmarks of BS).

The investor is putting in a good chunk of change, knowing that many things could go wrong leading to a complete flop and no return. The last thing she wants is to be poised for a big payoff after you've gotten lucky, and everything went right only to see it all slip away when Bigco sweeps in and swoops up 90% of your customers with essentially the same Widget.

How can you protect against that? Here are some traditional ways:

- Patent the original, non-obvious, and not previously disclosed aspects of your Widget—the parts without which it won't work well.
- Keep trade secrets secret.
- Carefully protect the confidentiality of your intellectual capital.
- Stay or two steps ahead of new entrants—Always Be Better.

Patenting

The uninitiated sometimes think that a patent is an ironclad barrier to entry to competitors. It isn't.

A patent gives you the **right to sue** infringers in the jurisdiction issuing the patent.

Lawsuits are horrendously expensive in time, money, and emotional stress. They are fraught with uncertainty.[94]

Moreover, the validity of a patent in any given country is never certain until the last court has spoken. Getting the last court to speak takes years and mountains of money. A patent from the US Patent and Trademark Office, by itself, is no guarantee that the validity of the patent will be upheld ultimately.

Knowing that lawsuits are expensive and that the validity of a patent is uncertain, some big company will almost certainly try to horn in on your market if your Widget is sufficiently profitable. Patent experts will tell you that your patent has no value *unless* there is a strong likelihood of infringement once you've proven the market.

If there is a worldwide market for your Widget, you will need to think about filing for patent protection in at least some of the other countries where you could have a big market.

Patents are expensive. You can expect to spend $20,000 to $25,000 just to file and prosecute the first patent. Worldwide patenting can cost well over $100,000 for each patent. Every country also charges annual maintenance fees. If you don't pay the fees, you lose the patent.

For all these reasons, while patents are a barrier to entry to many, they may not deter all from trying to horn in on your hard-won territory.

Therefore, be careful about blithely answering the barriers to entry question with "We've filed for a patent on our Widget."

Patents are important. In some cases, they are essential. But they are not the end of the discussion.

Trade Secrets

If you've invented Coca Cola and can keep the formula secret, that could be your best barrier to entry for other cola drinks.

A trade secret is not a trade secret if anyone—anyone!—other than authorized personnel legally bound to confidentiality has access to it.

But, if you have a unique feature that you can keep secret and no one else is likely to discover on their own, then treating it as a trade secret is much better than filing for a patent. To get a patent, you must show the key components of the Widget to everyone in the world. And patents expire after 20 years from the first filing date.

Trade secrets provide legal protection. That means, if anyone obtains a copy of the secret illegally, you can sue to prevent them from using it.

Protecting Intellectual Capital

Everything your company knows is its intellectual capital. This includes Intellectual Property—patentable devices and trade secrets. But it also includes manufacturing processes, what you've learned about the market, standard operating procedures, knowledge about what doesn't work, who the best suppliers are, and much more.

In fact, if you want to scale and become a big business, Thing 2—the company—will matter much more than Thing 1—the Widget. Real value resides in what the company knows and how it does things.

According to research conducted by Ocean Tomo, in 2020, 90% of the market capitalization value of the S & P 500 companies consisted of intellectual capital.[95]

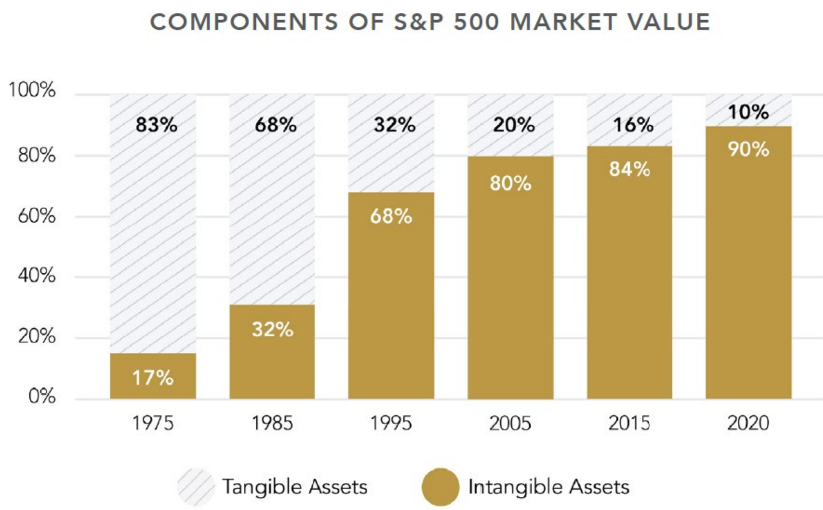


Chart by Ocean Tomo

Intellectual activity takes different forms: thinking, imagining, brainstorming, flashes of insight, daydreaming, calculations, statistical analysis, probability assessments, idea generation, norms, relationship building, agreements, customs, testing, research, product development, strategy development, developing a vision or mission, identifying values, and anything else we generate with our conscious or sub-conscious minds, whether alone or with others.

Intellectual activity includes human interaction, relationships, and contracts—what we do with others in or on behalf of an organization and how we do it.

Intellectual activity becomes an intellectual product when it is measurable or captured—objectified—in some form such as a drawing, minutes to a meeting, audio or video recording, computer code, software, vision and mission statements, values manifestos, decision flows, research reports, mailing lists, written rules, policies, or procedures, numbers, survey, process, guidelines, disclosure, description, report, white paper, story, presentation, painting, brand strength, and trust relationships.

The basic principle: Nothing in the hand (a physical thing) that is not first in the mind.[96]

A company's skills, knowledge, and services are a form of intangible inventory, something that can be transferred from one person or entity to another but not in the form of hard assets.

About 10 years ago, our family bought a Roomba, the robot vacuum cleaner that can clean the floors of a house all on its own, return to its home base, and empty the dirt into a disposable bag—all without your having to do anything but start it and occasionally replace the bag. But 10 years back, it just scooted around the floor and sometimes got hung up on a carpet. The user had to empty the dirt, with dust flying up, getting into your hair and onto your clothes. After a year or so, we stopped using it and eventually threw it away. Good basic idea. Imperfectly executed.

The current version of the Roomba is greatly improved. What is the difference? In between then and now, iRobot has learned and learned and learned. It now knows much more about what to do and how to do it than it did in 2011. By "it," I mean the people and the storehouse of information the company owns. The company *is* its intellectual capital.

That intellectual capital gives it a big head start over the Roomba wannabe's trying to capture the same market. I suspect it has a portfolio of patents; but it probably fends off competitors by making a superior Widget, one that works exceptionally well. The iRobot Roomba i3+ is the top pick on *The Wirecutter*, the consumer products review department of the *New York Times*.

The most important part of a successful company's intellectual capital is its way of doing things, its conscious culture. In an article on Amazon, Charles Duhigg writes, "Amazon is special not because of any asset or technology but because of its culture—its Leadership Principles and internal habits."[97]

So, if you get the barrier-to-entry question *and* you have a plan to stay 1-2 steps ahead of the competition by deliberately capturing and keeping your company's intellectual capital, share that plan with the potential investor. If true, it may be your best protection against direct competition.

Always Be Better

Excellence—giving more than fair value as part of the sale—is also a form of honesty and reciprocity

When investors ask about barriers to entry, they wonder whether your venture will be crowded out by newcomers. If you know how to build a company committed to excellence in every respect, you can protect against that happening. Many other companies have stayed at the top for decades with such a commitment.

Building an organization that does superb work does not directly create a barrier to entry; but it can assure that your company always gets the cream of the customer crop.

Section Four: Delivering an Honest Pitch

Chapter 11: The Three Musketeers of Persuasion

For over 2,000 years, the formula presented in Aristotle's *Rhetoric* has been the gold standard for the art of persuasive speech: **Ethos**, **Pathos**, and **Logos**.[98] These Three Musketeers of Persuasion have helped millions of orators, lawyers, and other presenters connect with and persuade others to join their cause, decide for their client, buy their product, elect them to office, donate to their charity, or invest in their venture.

Ethos. By affirming, confirming, and identifying with the principles, values, customs, norms, and beliefs of her audience—the ethos of her listeners—the speaker becomes credible. Ethos binds us together as a group. Our culture—our group character—is our ethos.[99]

As the speaker attends to the group ethos, she builds a bond of trust. She communicates that she is one of us. She takes a step toward the Hindu notion of *tat twam asi* (yonder person, I am she).[100] She shows herself to be someone the audience can both believe and believe in.

To get people to join or follow you, they must believe in *you*, not just believe what you say. You must connect with them on a personal and social level. You must connect with their ethos. Or, as Nancy Duarte puts it, your presentation must *resonate* with them.[101]

Paradoxically, you *don't* do that by talking about yourself. As Duarte says, your audience is the hero of your story, not you.[102] To engage with the ethos you both share, tell the story in ways that resonate with their principles, values, customs, norms, and beliefs.

Pathos. If you are not passionate about your venture, others are not likely to get excited enough to support it. You must convey your emotional fervor in your presentation. Emotion is contagious. That is the pathos element of persuasive speech.

To some the art of persuasion—the classic art of rhetoric—seems designed to manipulate, to trick, to distract, to misdirect, and to use fear, anger, disgust, and other strong emotions to inveigle a buyer (investor) into parting with her money (or a voter with her vote).[103] And a startup pitch is nothing, if not an attempt to persuade investors to invest in a startup venture.

Aristotle and others of his time knew that speakers could mislead or manipulate audiences by playing on their fears, hatreds, envy, anger, or disgust—whipping listeners up emotionally. Sophists were rightly criticized by Socrates, Plato, and others for using such tactics. Today's honest entrepreneur will reject such sophistry as well.

Using emotion to manipulate people without regard to the truth is illegitimate. "Buy my snake oil because you will otherwise get lower back pain" plays on fear and is not true. Snake oil does not cure lumbago.

The emotion you convey in your pitch must, therefore, be authentic. It must emanate from your honest, objectively plausible belief that your Widget really will solve the problem you've found.

Logos. Although commonly listed last, logos, the rational argument in your presentation, is first in order of importance. To persuade investors, your pitch must make sense, it must bring together objectively provable evidence and a coherent set of ideas in a logical argument that show the validity and accuracy of the story you share with investors.

The logos section of your pitch is where you will have the greatest risk of BS. Honestly putting the facts and the argument together is **hard work**. Great is the temptation to gloss over missing evidence, exaggerate a finding or study, or simply make up information needed to complete the picture.

Resist the temptation. Do the work.

The summary above is the bare bones of persuasive presentations. Spending an afternoon with Aristotle's *Rhetoric* will repay the effort. To learn what to do, why, and how, read Nancy Duarte's book, *Resonate*.

Chapter 12: Answer Questions Directly and Honestly

If you evade, beat around the bush, or otherwise avoid answering an investor's question, you might as well carry a big sign with the words, DON'T TRUST ME.

John wants to get an investment in his bubble soccer equipment and franchising business from one or more of the investors on Shark Tank.[104] After the Sharks have seen and played with the product, they start asking questions about the extent of the business now and its growth potential:

Bubble Soccer Guy	Investor	My Comments
	Mark: "The bubbles were fun, but no one cared about the soccer."	
John: "You make a good point. So, there's two types of demographics that play bubble soccer. There's the private event side, which is basically people just want to get into the bubble, try it once, crash into each other, have some fun. Then there's also the league side. There's the league competitors. They're active. They're coming back every week, and they're playing games."		
	Robert: "How many people are playing it today?"	
John: "We're live in about 39 cities. Depending on the league, it's anywhere between 8 to 12 teams."		John did not answer Robert's question, and he never does. Why not?
	Lori: "So if some of it is for events and some of it is for leagues. How much of it is for private events, parties, things like that?"	
John: "It's about a 50/50 split."		
	Robert: "But John, from a promotional perspective, we've rented stuff that's similar."	
John: "We didn't invent the sport by any means. The way I actually got into this is I had seen some viral videos in the United Kingdom and in Australia."		
	Kevin: "Are these leagues existing there?" Lori: "How big has this gone in Europe?"	

John: "What we've seen is those leagues [in Europe and Australia] are thriving more than ever."

John sidesteps the questions. When Robert follows up, John's answer will again deflect, failing to provide solid information.

Robert: "Define thriving."

John: "Just to give you an example – I don't have the search volume for Europe off hand. But just in the United States, in 2014 the largest number of searches per month in Google was about 55,000 searches. In 2015, it got up to 85,000 searches."

Robert: "Don't tell me the searches. Tell me about the sales in Europe."

John: "It's private companies. I don't have that information."

John has been painting a picture of leagues "thriving more than ever" and he doesn't have the information to support that statement.

Lori: "Do you know how many teams there are?"

John: "Just in one year, now we're seeing leagues pop up in Hong Kong, Taiwan . ."

Robert: "Forget the leagues. Forget the leagues."
Lori and Robert: "How many teams are there? How many teams?"

John: "It varies depending upon the particular season."

Robert: "<u>Why can't I get a straight answer from you</u>?"

Yes, indeed. Why won't this entrepreneur give the investors a straight answer? There are several possible explanations: (1) He hasn't done his homework to anticipate the questions and prepare the answers in advance. (2) He doesn't really understand his business and doesn't know essential information. (3) He thinks straight answers would not help him. (4) He has not formed the habit of answering questions directly.

Perhaps the real cause of his evasiveness is some combination of these 4 explanations and more. This selection represents how he answered questions during the entire meeting. The frustration level of the investors continued to rise throughout. After he failed to get an investment, he indicated that the investors just didn't realize what a great opportunity they had missed. He never seemed to realize that, in *their* minds, *he* was the problem. They passed because they didn't trust *him*.

Answering Questions Directly is a Learned Skill

Knowing how to respond to questions directly with straight answers is a learned skill. Experts in appellate advocacy drill lawyers in the art of answering the question. "Answer the question first and then provide any explanation you think appropriate." That's the rule. You will benefit by practicing this skill and making it a habit.

In the example above, John repeatedly gave non-responsive or evasive answers. When asked "how many people are playing it today," John said, "We're live in about 39 cities." First, if he's in this business, he should know the answer to this question. Second, being in 39 cities says little about how many people are playing. It could be 20 in each city or 200 or more. Third, using the word "about" with a precise number (39) signals that he doesn't know. But he should know. Is it 39, 38, 40, 37, or some other number? This non-answer weakens his credibility. In isolation, it might not do much damage, but a pattern starts to develop.

When Lori asks how big this has gone in Europe, John says those leagues are thriving more than ever. When Robert, who has already started to chafe at non-responsive answers, tells John to "define thriving," John says he doesn't have the "search volume" for Europe but in the U.S., there were 55,000 Google searches in 2014 and 85,000 in 2015.

This exchange illustrates several problems. First, asserting that the leagues are "thriving" in Europe when he does not have facts to support his claim is bogus sales hype. John is trying to BS the investors, who are having none of it. Second, when Robert tests this assertion, John starts talking about Google searches. The number of Google searches in the U.S. tells Robert nothing about how big the sport is in Europe, which was the question. (Moreover, this is a false metric, akin to what Eric Ries in *The Lean Startup* calls "vanity metrics"[105] and Alberto Savoia calls "other people's data."[106]

John would be better off giving the investors a bridge to his metric, something like the following: "We don't know the number of people playing in Europe or the United States, for that matter. But we know the sport is gaining in popularity judging by the increasing number of Google searches occurring. We estimate that for every thousand Google searches, at least X number of people are playing."

That is a fairly weak answer, one not likely to inspire confidence. But it is honest. And John needs honesty more than anything else if he is to persuade investors to get involved. If they know he is playing straight with them and they are excited about his Widget, *they* will help him learn how to get the information he needs.

Additionally, John has been caught in contradictory statements. (The European leagues are "thriving more than ever." But "It's private companies. I don't have that information.")

Remember, this kind of exchange is less about the merits of the product or service, as important as that is, and more about conveying an impression that **you** are someone an investor can trust to take this project forward and develop it into a business that returns the investment several times over.

In a pitch, you are selling **you**; and the best way to do that is to do your homework well and **be completely candid**, revealing what you know and admitting what you don't.

Finally, in exasperation, Robert asks John how many teams there are in the 39 cities in the United States. John should have that number at the tip of his fingers. It's at the heart of his business. Instead of giving it, however, he says, "It varies depending on the particular season."

Now, that answer may be accurate, but it does not respond directly to the question. A better answer would be, "In the spring, summer, and fall, there are X teams in all 39 cities combined. The number of teams declines in the winter when the sport is confined to indoor venues. At that time, we have Y teams."

Responding directly and without equivocation to the question asked shows that you have done your homework and are on top of your game, unless, of course, the majority of your answers are some version of "I don't know." In that case, you need to be better prepared before asking anyone to put time or money into your venture. Knowing the answers to questions potential stakeholders are likely to ask is a basic responsibility of every entrepreneur looking for investment or other support from others.

The Power of "I Don't Know"

Never guess.

Never fudge.

Never BS.

If you don't know (and know that you don't know), say, "I don't know."

The better answer is "I don't know but will find out if I can."

As Brian Cohen puts it, "Angels hate BS. 'I'd rather hear an honest "I don't know" than a desperate attempt to make up something on the spot,' says angel investor Alain Bankier."[107]

No savvy investor expects you to know everything, not even everything that you *should* know. Many have been where you are. They understand that you are in the midst of a gigantic scientific experiment. The purpose of the experiment is to chip away at uncertainty, ultimately proving (or disproving) that enough people will pay money for your Widget to support a business.

If you say, "I'll get back to you on that," be sure to do so.

Sometimes you don't even know what you should know. (*See* the previous section.) A good question may make you aware of something you hadn't thought of.

There is no shame in not knowing.

The shame lies in being indifferent to ignorance or, worse, pretending you know what you don't or, even worse, giving a BS answer.

Startups, whether within existing organizations or new ventures, are experiments designed to discover whether sufficient buyers exist or can be created for a new product or service. By definition, at any given time in the pre-revenue process, there is much that startup leaders will not know.

When asked questions that touch on the many things we don't yet know as we work through the startup process, we are often tempted to guess. It's a natural reflex. And because it's a reflex, resisting it requires deliberate action. We must practice the art of saying "I don't (yet) know."

> "Let's work the problem, people. Let's not make things worse by guessing."
> Gene Kranz, Head of Mission Control, Apollo 13

The human brain readily invents an answer when it receives a question. It seems to be hard-wired to do that.[108] Indeed, it is for this reason that our rationalization process can be considered the great BS machine. So, when someone asks us a question and we don't know the answer (but think we should), our brain goes into high gear and comes up with something--anything plausible—to resolve the tension.

We need to learn to resist the urge to invent answers and explanations when we don't have the facts to back them up. When you don't know, say, "I don't know." If you are working on the issue but don't yet have an answer, say, "We're looking into that and don't yet know." And say, "Thank you for bringing that to our attention."

The savvy investor will not be put off by your ignorance on some aspects of your venture, especially if you are early in the process. She will lose interest, however, if (a) you are ignorant about readily obtainable facts or (b) you are clueless about how to discover the answer to questions like how big the market is, whether people are likely to buy what you plan to sell, how much money it will take to reach the next milestone, what the next milestone is, and similar questions. You must be in command of the process. If you are clueless, no truly knowledgeable investor will support your venture.

Rejoice when someone asks a question to which you do not yet know the answer because they have given you a tip on what you need to find out.

Paradoxically, "I don't know" can be extremely powerful.

First, it tells the listener that you know what you don't know and are not fooling yourself with made up answers. Investors want to know that you know what you don't know and can tell the difference between real and fake knowledge. Angel investors and seasoned VC's have been in your shoes. They know that the entrepreneurial process is a step into the unknown. If you pretend to know everything, you will damage your credibility.

Second, saying "I don't (yet) know" conveys a commitment to honesty in communications with investors and other stakeholders. Because they hear it so seldom, investors find it refreshing when an entrepreneur shares her lack of knowledge.

Third, answering honestly about the state of your knowledge gives you a chance to say, "I don't *yet* know, but here is our plan for finding the answer to that question. Do you have any suggestions? This has the effect of showing that you have thought about the question, have a plan for answering it, and are open to anything you can learn on the subject from the investor.

Fourth, saying "I don't know" stimulates dialogue. The more the investor talks, the more the entrepreneur can learn (a) valuable information about the investor and (b) information that can help with the venture. When you say, "I don't know," you implicitly invite the listener to share her views on the subject of the question.

Thus, the habit of saying "I don't know" when you don't is a key entrepreneurial virtue.

"We're Not Yet There"

Closely akin to "I don't know" is the phrase "we're not yet there." Again, a startup is an experimental journey. Until the venture is a profitable business (and in some respects for long thereafter), there will be many things as yet unaccomplished.

Don't pretend you're further along than you are.

According to Clint Korver of Angel Match, startup teams and founders frequently fudge where they are on traction.[109] "When entrepreneurs say they have customers, investors dig into the details of who those customers are and how they were acquired. Investors might even ask about signed contracts. Once investors start digging, it's very hard to keep up a false story, and they love to dig."[110] By that time, credibility, i.e., trust, is out the window.

If you’re at the idea stage, don’t pretend you already have a product. If you already have a product but no buyers, don’t pretend you already have customers.

The difference between a product and a business is buyers. No buyers, no business.

If you have no repeat buyers, you have no business, regardless of how busy everyone is.

If you have customers, know who they are, what they are buying, how much they are buying, what they say about the product, how much it costs you to get them, and anything else you can find out about them. The answers to these questions determine whether you have an investible business.

You would not include all this information in your prepared pitch but be prepared to share it if asked.

Know your numbers

Knowing your numbers is critical. Which ones? How much money you’ve spent up to now? How much you spend every month to keep moving forward (the burn rate). How much you have in the bank. How much it will cost to achieve a particular milestone such as your Minimum Viable Product (MVP). How much does each employee make? How many shares have been issued? How many treasury shares does the company have? How many and what kind of shares may it issue. How many option shares are in the option pool? How many option shares are committed in option agreements?

Every seasoned investor expects you to know these numbers cold. If you don’t, it sends a signal that you’re not on top of things. They start wondering about other important things you don’t know. Not all—perhaps none—of them will come up in a short Q&A session during your pitch or in a casual encounter. But, before writing a check, serious investors will want answers.

Chapter 13: Avoid Common Mistakes

Ditch the Hockey Stick

Some startup business plans contain an argument that goes something like this: In the first year, our sales will be a modest $100,000. Sales will grow through the next three years at an annual rate of 10-15%. Then in year 5, sales go through the roof, and we'll generate revenues of $25 to $30 million. Thereafter, it's Elysian Fields forever. The page has a graphic showing a growth curve that resembles a hockey stick. Often, there is no historical basis for these numbers.

Remember, a startup is not a going concern. It's an experiment, the goal of which is to find out whether an idea can become a regular business. Don't try to shoehorn a pre-revenue startup into a regular business frame.

One VC investor told me he rips that page out of the plan when he sees it. Most pay no attention to it at all.

Their point (and mine) is that there is no way on this (still) green earth to know what kind of growth the business will experience in year 5. Established corporations have difficulty budgeting for anything beyond a year and often find themselves revising budgets before the end of the current year.[111]

Yes, your venture may take off like a rocket if all the stars align just right, you do everything right, *and* you get enormously lucky. You could become Facebook instead of Myspace. But you could also be Myspace, Google Plus, Vine, Yik Yak, Friendster, or any of the other social media platforms you may never have heard of.

Hockey Stick growth projections are often wishful thinking, reflect poorly on your knowledge and understanding, and damage your credibility.

Eliminate "If we get only 1% of the market . . . "

The market is huge, a gazillion dollars a year. If we get only 1% of that market, we'll be billionaires.

It may well be a huge market but drop the "if we get only 1% of the market" line. If successful, your venture may create a new niche in an existing market or make its own market, and no one can truly say how big that will be.

Some startup operations succeed by garnering a small or even big share of an existing market. But in those cases, they often transform or create their own market niche.

The 1% of the market attitude reflects a poor understanding of the dialectical relationship between markets and a truly new Widget. Apple did not get enormously wealthy by making a better telephone or even a better Blackberry (which was already there). They made something new—the iPhone. Not long after, others were scrambling to come out with a similar smartphone.

Consider the famous story about the efforts of Larry Page and Sergey Brin in 1997 to sell the PageRank software they developed as graduate students at Stanford. They approached Yahoo and several other Internet-related companies.[112] Finally, they had serious negotiations with Excite, in which a total package of $1.6 million was discussed. (The deal fell through when Excite's CEO realized that PageRank worked too well and would likely take users away from the Excite Portal, thereby endangering ad revenue.) The point is that few, if any, people at the time truly understood the potential of what later became Google—not leaders of Internet companies like Yahoo and Excite and not Larry and Sergey themselves. Financial projections five years out would have been little more than fantasy.

What if you're making a Widget that improves on an existing type of product? In Tony Ulwick's terminology, this could be either a differentiated strategy of getting the job done better and more expensively (e.g., Dyson's vacuum cleaner) or doing it better for less money (e.g., Google Search, Netflix). Could you not grab a big share of the existing market then?

Yes, but at the business plan stage, it would be hard, perhaps impossible, for you to know what impact your fledgling Widget will have.

Describe the size of the market to show that a large demand for the type of solution you are proposing exists (if it does) and leave the 1% line out of the discussion.

Deep six "fake it 'till you make it."

"Fronting" and "posturing" and the notion that you should pretend to be what you're not by "looking the part" have become ways of deceiving ourselves and others. The strategy has been encapsulated in the catch phrase "fake it till you make it."

In online videos, Gary Vaynerchuck eviscerated the practice of wearing fake watches and clothes you can't afford in order to look like what you're not. He meets too many people who claim to have arrived when they really are just getting started on the journey.[113]

Don't say you have a product when it's only on the drawing board.

> "Fake it till you make it is BS."
> Gary Vaynerchuck

"Fake it 'till you make it" is death to your credibility. Don't buy it. Don't try it.

Dan Ariely and other scientists have shown that doing fake stuff affects our honesty generally. No, really. They found that people who believe they are wearing fake sunglasses score worse on honesty tests than others.[114]

I know of no data showing how many of the 80 to 85% of venture-backed startup failures had serious trust problems. Different factors could have had an impact.

But my hypothesis would be that *some* failures occurred because the founders squandered trust. They destroyed it either through incompetence or by being deceptive or by playing unfairly or by violating their stewardship responsibilities.

You can stand out by being rigorously honest. You will attract people hungry for a candid, honest entrepreneur, someone they can trust.

Bury the notion of faking it until you make it.

Puffery is BS and Potentially Illegal

In court opinions, "puffery" refers to claims whose objective truth is difficult or impossible to figure out. Puffery consists of undue or exaggerated praise. Statements that are so over the top that no reasonable person would take them to be literally true. As one court put it recently, puffery can best be described as "a general claim of superiority over comparable products that is so vague that it can be understood as nothing more than a mere expression of opinion."[115]

The term arose when courts rejected claims of fraud based on boastful advertising. But if "the world's best chocolate" is puffery, is the same true for the phrase "50% less mowing?" Some courts might say yes, others no. In a case brought against a seed company, the court rejected a challenge to an advertising slogan that "less is more," but upheld the plaintiff's claim that "50% less mowing" was a specific and measurable assertion, the accuracy of which could be tested scientifically.[116]

Perhaps a court will find an entrepreneur's exaggerated claims to be mere puffery, something no reasonable investor would rely on, or a court might find them to be criminal or civil fraud. Either way, they are BS. And BS kills credibility and destroys trust.

Don't Use Manipulative Tricks and Gambits

You can find books on negotiation and sales techniques that will tell you all about how to manipulate people using various tricks and gambits. Many rely on Robert Cialdini's bestseller, *Influence: The Psychology of Persuasion.* A world-renowned psychologist, Cialdini uses entertaining stories to describe how six influence factors affect our subconscious minds, making us more inclined to comply with what someone else wants: reciprocity, commitment and consistency, social proof, liking, authority, and scarcity.

You've probably been exposed to three of these factors—reciprocity, social proof, and scarcity—in some sales setting or advertisement recently. "4 out of 5 doctors recommend XYZ." "Thousands of mothers swear by LMN." Social proof is at work in such ads. If others are doing it, you should too.

"This offer will expire in 2 days." That's the scarcity factor in play. "Only 2 left." You can find sellers on Amazon using that one routinely. Those who do that are prompting your subconscious to buy now because the item is scarce. You could miss out.

If these really are the last two bagels in the store, then isn't it OK to say so? Technically, yes.

But unscrupulous people have used these tactics for so long that they are associated with dishonesty. We all have seen the store that is perpetually "going out of business" or holding yet another "clearance—everything must go—sale." It's such a widespread problem that the Attorneys General and the Federal Trade Commission get involved in egregious cases.[117]

For startup founders and team members, trust is more important for survival and success than anything else. Don't squander it by engaging in sleazy tactics.

Chapter 14: The Listening Pitch

Listening for Understanding and Learning

An all-too-human response to people who reject a founder's business idea is to grouse about how dumb they are for passing up a great opportunity. In the example related in Chapter 12, John would have been better off seeking to learn from the encounter with the 5 investors on Shark Tank. While the Shark Tank may not lend itself to an extensive learning conversation, many other settings do.

In a learning conversation, the parties learn from each other.

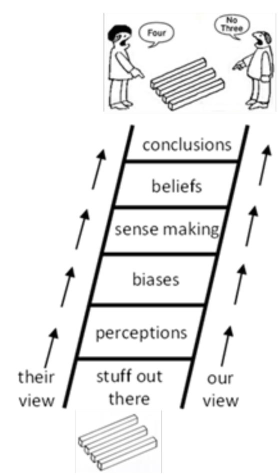
Suppose upon hearing your pitch about the Ready-to-Cook Meal Kit, Joan Sperling says, "That's the most hairbrained idea I've heard this month. Nobody will want to spend time cooking a meal even if all the ingredients are at hand when they get home exhausted after slaying dragons all day."

You have two possible responses for continuing the conversation. You could do the natural, human thing. You could push back, sharing detailed information about why Joan is mistaken. "In fact, we have studies showing just the opposite." (You'd better have the studies. And they'd better be authentic.)

In my experience and that of other negotiation professionals, this approach merely strengthens Joan's desire to prove her point. The conversation could quickly spiral into a tug-of-war about who is right. Joan will not want to lose face; so, she might stick to her guns despite your "study," which she may not believe anyway.

Facts seldom change the minds of those who firmly believe what they are saying. They simply find other arguments to support their opinion.[118]

A second approach makes use of the **ladder of inference** to get a better understanding of Joan's view. With this technique, your goal is to understand Joan's thinking, to learn how she reached her conclusion.



The key words are "help me understand." The following techniques will help you lead a listening conversation:

First, engage in active listening by **focusing** on what the Other Person is saying, particularly her questions. If you're pitching Ready-to-Cook to Joan, you might say, "Help me understand. You're saying that busy professionals will not buy a Ready-to-Cook Meal Kit because they would be too tired. Is that right?"

This invites Joan to tell you more about what prompted her remark. In doing so, she might even reach a different conclusion as she thinks through the matter.

Too often, we confuse listening with not talking while we are thinking about what we are going to say. When we do that, we miss the opportunity to see other perspectives and learn something new. More important for a successful pitch, we often do not persuade the Other Person that we have heard and understood what she has to say. We all want to be understood. When giving a pitch, part of the entrepreneur's job is to make sure she understands what the Other Person is saying.

Second, engage in **reflective listening**. When the Other Person says, "You're not likely to experience sufficient growth to provide a satisfactory return on investment," your response should not be, "Oh, yes we are." Instead, inquire about what the Other Person is saying. "Let me see if I understand you correctly. You're saying that our business is not suited to rapid and substantial growth. Is that correct?" The Other Person confirms your paraphrased version of his statement. "And you think that for that reason, we will not be able to generate income to repay your investment several times over?" The Other Person will either confirm, deny, or expand on her earlier statement. In any event, she will know that you both are focused on what *she* was saying, and you are trying to make sure you understood her correctly. And you will likely receive more information from her on how she reached her conclusion.

Once you are sure that you understand the Other Person's point of view, it helps to inquire about how she reached her conclusion. This is where the ladder of inference becomes really useful. For example, you might say, "Can you share with me the data and reasoning process by which you concluded that we are not likely to experience sufficient growth to warrant an investment?" The Other Person might say any number of things, such as, "Well, in my experience this kind of business has limited growth potential." Or she might say, "The market for your product is too specialized. There will never be more than twenty or thirty thousand people who want to buy it." Or she might say, "The cost of goods, make this product prohibitively expensive for all but a select group of buyers."

Whatever she says, you have more information than at the start of the conversation. She may be right; in which case you need to reexamine your business plan and the feasibility of the venture. Or she may be wrong, which means you need to work on the proper response to her concerns because others will likely have them but may not share them with you. Or while explaining herself, *she* might change her mind and reach a different conclusion.

You can even pre-emptively work the response to such concerns into your pitch so that the questions are addressed before they're asked. For example, when pitching Ready-to-Cook Meal Kits, you might say, "We understand that professionals sometimes get home too late or tired to cook anything, even if they have all the ingredients. That won't be every night, however, and the people who have tried out our kits already tell us it's a great comfort to have them available."

Third, once you have confirmed that you have understood the Other Person's statement and the reasoning behind it, she will likely be much more open to listening to your response, which may range from a point-by-point explanation of a contrary view to a statement of gratitude for calling something to your attention.

Unless you listen for understanding and learning, you are less likely to set up rapport with potential investors or to learn what they can teach you.[119]

The Evolving Pitch

Your pitch should reflect everything you've learned to date.

If you listen to understand, make note of the questions and suggestions you receive, record new thoughts as they come to you, and pay attention to what you're learning as you move your venture forward, your pitch should get better. If you also study resources on making effective pitches, it should get a lot better. In other words, your pitch will evolve as your knowledge base grows over time and as you develop the skill of making a short presentation.

It is important that your pitch convey your team's state of knowledge at any given moment. Here's where we've been. Here's where we are. Here's what we're trying to find out. Here's what we're trying to get done. Here's how we plan to get there. Here's how much money we need. Can you help?

Be Prepared to Say How the Other Person Can Help

Part of the fun of joining the startup world is meeting so many highly competent, knowledgeable, and experienced people willing to help you move forward by supplying free advice and connections. You never know when or where you will meet the person with precisely the trove of information you need or who can introduce you to someone who might provide a big boost to your venture.

When you go to a networking event of any kind or even a casual gathering of acquaintances and business associates, be prepared to talk about the help you need. And don't focus solely or even primarily on the money. Yes, you must have money to keep the venture moving forward. But you also need oodles of knowledge, some of which you don't even know you need, much less how to get it.

Samantha put fifteen business cards in her pocketbook as she got ready to leave for a social gathering at her former college. After a few conversations with old friends, she found herself speaking with Joo-Wan Kim, the head of development at the college. Dr.

Kim oversaw the raising and investing of hundreds of millions of dollars. Dr. Kim knew dozens of money managers and had access to many high-net-worth donors. Of course, she could not give any of the donors' contact information to Samantha; but Samantha was smart enough not to ask for that.

Instead, Samantha went through her 30-second elevator pitch about her protein bar made with cricket flour and how it could help feed millions of people in Africa and other impoverished regions. At the right time in the conversation, Samantha asked Dr. Kim what kinds of angel investors were likely to be interested in her venture. Dr. Kim said she knew two angel forums that focused heavily on impoverished regions of Africa and offered to put her in touch with the director of each. She also recommended that Samantha set up a profile on Gust and to look into crowd funding.

> "Ask and it shall be given you. Seek and ye shall find. Knock and it shall be opened unto you."
>
> Jesus. Mathew 7:7

Samantha knew about crowd funding but had not yet heard about Gust. So, when she got home, she looked up Gust and set up a profile the next day. In the meantime, Dr. Kim made an e-introduction to the two directors. Because of this introduction, each of the two directors made time available for Samantha to make a short pitch over the telephone, which eventually led to an invitation to present at one of their Angel meetings.

In the startup world, virtually no investor meeting—whether with angels or Venture Capital firms—takes place without an introduction. Cold calling is almost always ineffective. As they used to say in Chicago politics, "We don't want nobody nobody sent." Samantha knew she needed introductions and when she found herself in front of someone who could introduce her to money people, she was ready to ask for help.

One of the basic entrepreneurial skills is knowing when, how, and whom to ask for help. You are not likely to receive if you do not ask.

Building Authentic Relationships

In every encounter with an old friend or a new acquaintance, you have an opportunity to work on building an authentic relationship of trust. As I argue throughout this book, being meticulously honest is a key part of that process. Honesty is an expression of respect. Showing respect is the more general virtue.

To respect someone means to notice them, to give them due regard, to see them properly, to act deferentially toward them, to be courteous, to honor their personal dignity, to take them seriously.[120] Immanuel Kant and other philosophers suggest that respect for the dignity and autonomy of others is the foundation of morality.[121]

When we interact with investors, we are often looking for something from them. What does respect mean in this context? If we practice Kant's imperative, it means that we see (respect) them as ends and not merely as a means to something we want. We engage with them in ways that recognize them as human beings, not just as a source of money, not just as an employee, not just as someone who might give us a referral to someone else who can help.

In *Authentic Leadership*, Bill George, the former CEO of Medtronic, quotes Jiddu Krishnamurti, "Relationship is the mirror in which we see ourselves as we are."[122] The Zen Buddhist monk, Thich Nhat Hahn spoke of the reality that emerges from an authentic, respectful relationship as the in-between or interbeing. It's neither you nor I but both of us together. The great Jewish philosopher, Martin Buber spent much of his life exploring and writing about *I and Thou*, reaching insights and conclusions similar to those Hahn discovered in Vietnam.[123]

The dialogical principle of human relationships has also been discussed in Reuel Howe, *The Miracle of Dialogue* (Seabury Press, 1962), Daniel Yankelovich*, The Magic of Dialogue: Transforming Conflict into Cooperation* (Simon and Schuster, 1999), and other books and articles.

Roger Fisher and Scott Brown gave us a practical guide to developing a relationship of respect and trust in their book, *Getting Together: Building a Relationship that Gets to Yes* (Houghton Mifflin, 1988). Part of the shelf of books coming from the Harvard Project on Negotiation, this book advises us to remain **unconditionally constructive** no matter what the Other Person is saying or doing.[124] If you make a habit of responding constructively in all settings, regardless of how badly someone else may be acting, you will be able to calm volatile encounters and be much happier in the end. And you will build enduring relationships of trust worth more than any investment of money.

Chapter 15: Write Honesty into Your Team Charter

Why are people honest?

Since honesty is the default mode for most people most of the time, the more common question is “Why do people lie?” The short answer: “to get an advantage” or simply “to get what they want.” For longer answers, see Dan Ariely, *The Honest Truth About Dishonesty*.

But here the question is the reverse: Why are people honest when they might lie and likely get away with it? Why do people slow down and stop at stop signs in the middle of nowhere when there is obviously no one around coming either way?

My hypothesis: People who are honest when they have an incentive to lie and could get away with lying are honest because with them honesty has become a reflexive habit. Honesty has become part of their character. It is stamped into their being. It is who they are.

In my view, honesty of this kind--**honesty for all seasons**--is the result of a higher-order incentive, the desire to be someone whom others can trust and perhaps the desire to avoid the shame of being caught lying. Perhaps the inclination to develop an honest mind has deeper or more complex psychological roots.

You can't turn this kind of all-weather honesty on and off. You can't apply it selectively. You can't be honest in some contexts and dishonest in others and still be the same, integrated person. In fact, trying to be different people at different times for different purposes is the essence of **distegrity**, a lack of inner cohesion, a falling apart. It is two-faced, now one person, now another.

Most people (even those lacking in integrity themselves) prefer to deal with those who are honest all the time. It is less stressful, less expensive, and more efficient. Working with an occasionally dishonest person is like working with a car that starts some or even most of the time but not all the time. You're never sure when it will fail you. It's the difference between reliability and unreliability.

If I am right about this, then a commitment to making a thoroughly honest pitch will affect and infect other aspects of your startup work. You will find yourself being honest with suppliers, honest in negotiations, honest when you develop compensation packages, honest in financial reports.

If honesty is good for you in *all* your dealings, is it not also good for your team? Should your team not also be honest to a fault?

Moral Cultures

Every social unit has a moral culture, a social governance system, consisting of norms and rules, various means of achieving compliance with these norms and rules, a socialization process in which new members become aware of and accept the existing norms and rules, and processes for changing and developing norms and rules.

The norms and rules of any team will define what is prohibited, discouraged, acceptable, encouraged, and required.

prohibited ← discouraged — acceptable — encouraged → required

Most of a startup team's norms and rules come from larger societies. Some will come from the startup world culture. These are common practices and expectations that are shared by thousands of people in Silicon Valley, Austin, Toronto, Boulder, and other clusters of startup activity. The more foundational norms and rules, come from the larger society, including basic laws.

But every team (every social unit, including a marriage) also has its own unique norms and rules, most of which are unwritten. Sometimes they will come from a strong leader. On other occasions, they evolve as a group works together and becomes a team.

The specific content of a team's moral culture develops through the words and deeds of the team members working together. If they tolerate people showing up late, then such behavior becomes acceptable and common. If team leaders start meetings punctually, tardy members will soon get the message that coming late is discouraged or unacceptable. Frequently, no words are needed. Everyone catches on, and norms emerge as part of the team's unique culture.

Such unwritten norms and rules are not always good or ethically sound. It may, for example, become common practice in Team X to cheat when fulfilling orders or conducting marketing studies or submitting expense reports. If so, these practices become normal, that is, they are norms, and, as such, they are part of Team X's moral culture, for better or worse.

Getting Everyone on the Same Page

So how can you increase the probability that rigorous honesty will become part of your team's culture? Answer: Write it down, talk it up, and refer to it when appropriate.

By "it" I mean a simple code of conduct. A written code puts everyone on the same page and sets official expectations. It nudges everyone towards honesty.

The following stories about Herb Taylor and the 4-way Test and Robert Wood Johnson II and the Johnson & Johnson *Credo* illustrate the value of writing down the basic rules.

Herb Taylor and the 4-Way Test

Herb Taylor had a problem. The Continental National Bank of Chicago had asked him to take on the leadership of Club Aluminum Products Company in an effort to salvage something for the creditors. Formed in 1923, the maker of waterless cookware had grown rapidly during the 1920's, but its debt had outstripped its growth. When the Continental National Bank asked Taylor to take over in 1930, Club Aluminum's balance sheet was in the red by more than $400,000, an enormous sum at the time. 250 jobs were at stake at the company headquarters in Chicago alone, not counting the hundreds of salespeople throughout the country who would join the growing ranks of the unemployed if, as seemed almost certain, the company went down for the count.

Picture from Ebay

Salespeople demonstrated Club Aluminum's waterless cookware through home parties, at which they showed off its special features. A set of Club Aluminum cookware was expensive but worth the price if you valued nutritious meals with the flavor and vitamins locked in—and could afford it.

What would you do if the largest secured creditor asked you to take over the fortunes of an insolvent company at the outset of the worst depression ever? Some, like Al "Chainsaw" Dunlap,[125] would start firing people and cutting operations right and left, extracting salary concessions from the temporarily spared employees and beginning the search for buyers of the choice assets in preparation for liquidating the company. Herb Taylor, in contrast, sought moral guidance:

> The first job . . . was to set policies for the company that would reflect the high ethics and morals God would want in any business. If the people who worked for Club Aluminum were to think right, I knew they would do right. What we needed was a simple, easily remembered guide to right conduct—a sort of ethical yardstick—which all of us in the company could memorize and apply to what we thought, said, and did in our relations with others.[126]

Taylor was not aware of any religious teachings that specifically applied to the business world. He tried the Chicago Public Library but found nothing that would serve as a concise code of conduct for Club Aluminum. He prayed and fretted. Finally, one day he went into his office, shut the door, put his head down on his desk, and, after about 20 minutes, was inspired to write The Four-Way Test:

The Four-Way Test of All We Think, Say, and Do

1. Is it the truth?
2. Is it fair to all concerned?
3. Will it build goodwill and better friendships?
4. Will it be beneficial to all concerned?

Taylor was not sure this little code of conduct would actually work for Club Aluminum. Having had a successful career as a high-level executive in the Jewel Tea Company, he had first-hand knowledge of the norms and practices of businesspeople—especially traveling salespeople—in the early part of the 20th Century. For many, business was a dog-eat-dog world, in which only cursory thought was given to the interests of others.

Still, Taylor felt he should give the test a try. So, for 30 days, without telling anyone else, Taylor tried to conform his own behavior to the mandates of The Four-Way Test. He found to his amazement that it sharpened his ethical awareness and strengthened his resolve. Although he was a religious man who led a Sunday school class and considered himself to be above reproach in ethical matters, this little collection of four questions totaling 26 words helped him improve his thinking and behavior when dealing with others.

Following his own positive experience with The Four-Way Test, Taylor introduced it to the senior executives of Club Aluminum, asking them to give it the same tryout. At the end of the 30 days, these top-level managers reported that The Four-Way Test should be distributed throughout the company.

And so, everyone in Club Aluminum came to have wallet-sized cards reminding them of The Four-Way Test whenever they were working on behalf of the company:

> Not only did we put the four-way test into practice with our salesmen, we printed The Four-Way Test on the backs of our calling cards. Our salesmen were instructed to say something like this: "Of course, I can't live up to this perfectly, but I'd appreciate your help. Whenever you find I'm not living up to it, let me know, and I'll do my best to change."[127]

Taylor credits The Four-Way Test with having helped to rescue Club Aluminum from bankruptcy and making it a highly successful company, one that was so financially prosperous that Taylor was able to go into semi-retirement in order to pursue his lifelong ambition of working with young people around the world. As he put it, "These words are not only responsible, to a great degree, for the success of the Club Aluminum Products Company, but they are also credited with changing the lives of hundreds of thousands of people all over the world."[128]

The Johnson & Johnson *Credo*.

Following the death of his father, Robert Wood Johnson II (RWJ) rejected the advice of his mother and uncle to attend college and went to work full time for Johnson & Johnson at age 18. He started out at "the lowest job" in the powerhouse.[129] Gradually, he learned the business as he moved from department to department, working his way up, becoming Vice President and General Manager 19 years after starting at the company,[130] and President 2 years later on October 15, 1932.[131]

He knew the business from the inside out. Just as important, he had worked alongside many of the employees as he moved up the seniority ladder. He knew their struggles. He knew their families. He knew their heartaches.

In 1926, he oversaw the construction of the "nation's first modern, single-story textile mill" in Gainesville, Georgia, along with "two hundred modern houses, a grade school, a medical facility, and several churches."[132] This was an implementation of his conviction that "factories can be beautiful."

Throughout his time as Vice President and then later as President, RWJ sought to learn what he had missed in college, reading stacks of books on various subjects, and consulting leading professors and religious leaders for guidance.[133] He was developing a thoroughgoing philosophy of corporate social responsibility long before that term gained widespread use. Although himself a lifelong "liberal conservative" Republican, he threw his support behind FDR following his election in 1932 and wrote the President-elect a letter advocating an increase in wages and a decrease in hours. "A federal law limiting hours of work to perhaps six or not more than eight seems worthy of careful thought . . ."[134]

RWJ worked assiduously to convince fellow industrialists of the day to make doing the right thing a centerpiece of their businesses.[135]

When RWJ unveiled the now-famous Johnson & Johnson *Credo*, on the day the company went public in 1944, it was nothing new. It was not the product of a committee, thinking in isolation from the organization's daily demands and decisions. It had been developed over a 30-year period of trial and error. Previous versions of the written document had been put into practice and then revised. The company had built "more than one hundred attractive and efficient plants and office buildings," putting its philosophy to work.[136]

But the *Credo* was a radical departure from dominant thinking and practices in the corporate world at the time. How so?

First, the *Credo* lays out *priorities* among the company's responsibilities that guide decision-making at all levels in the company. Customers, patients, and physicians come first, employees second, communities third, and shareholders fourth.

Second, it explains succinctly *why* these responsibilities are important to the mission of the company.

Third, it indicates *how* the company should go about fulfilling each of its four main responsibilities.

The entire document can be printed on one page.

The *Credo* could serve as a guide and inspiration to hundreds of thousands of organizations around the world. And it is a model for how to write basic human decency into your corporate charter.

OUR CREDO

We believe our **first** responsibility is to the **doctors, nurses and patients,**
to mothers and fathers and all others who use our products and services.
In meeting their needs everything we do must be of high quality.
We must constantly strive to reduce our costs
in order to maintain reasonable prices.
Customers' orders must be serviced promptly and accurately.
Our suppliers and distributors must have an opportunity
to make a fair profit.

We are responsible to our **employees**,
the men and women who work with us throughout the world.
Everyone must be considered as an individual.
We must respect their dignity and recognize their merit.
They must have a sense of security in their jobs.
Compensation must be fair and adequate,
and working conditions clean, orderly and safe.
We must be mindful of ways to help our employees fulfill
their family responsibilities.
Employees must feel free to make suggestions and complaints.
There must be equal opportunity for employment, development
and advancement for those qualified.
We must provide competent management,
and their actions must be just and ethical.

We are responsible to the **communities** in which we live and work
and to the world community as well.
We must be good citizens – support good works and charities
and bear our fair share of taxes.
We must encourage civic improvements and better health and education.
We must maintain in good order
the property we are privileged to use,
protecting the environment and natural resources.

Our final responsibility is to our **stockholders**.
Business must make a sound profit.
We must experiment with new ideas.
Research must be carried on, innovative programs developed
and mistakes paid for.
New equipment must be purchased, new facilities provided
and new products launched.
Reserves must be created to provide for adverse times.
When we operate according to these principles,
the stockholders should realize a fair return.

Johnson & Johnson

The ABC's of Trusted Teams and Companies

The Club Aluminum and Johnson & Johnson successes were not coincidences. There is a positive connection between building a social governance system grounded in respect and doing well. The content of your venture's moral culture will have a big impact on whether and by what degree it succeeds.

I recommend setting the goal of developing a sound moral culture and then holding multiple conversations about what that means in practice. What are the principles, values, norms, and rules that your team wants to govern its life together?

While there is much commonality of social governance systems in social units in large societies, every team has its own unique moral culture, its own way of being with each other, interacting with others, and doing things. In this respect, Club Aluminum was not exactly the same as Johnson & Johnson, which is not the same as Medtronic or Hewlett-Packard or any other small or large organization. Organizations, like individuals, seem to have their own personalities, their own unique cultures.[137]

As part of their idiosyncratic way of being and doing, many companies that endure for decades seem to have a baseline way of being and doing, a minimal code that I sum up in one sentence:

> Individuals and teams as well as the management and board of [name of team or organization] will strive to:

- Always Be **Honest**,

- Always Be **Competent**,
- Always Be **Fair**,
- Always Be **Good stewards**,
- Always Be **Cognitively Humble**,
- Always Be **Constructive**, and
- Always Be **Kind**.

I call these the ABC's of a morally responsible business. I have discussed the first in this book and intend to write about the other six in a separate book soon.

I encourage you to build the ABC's of Trust into your venture from the outset.

Write it Down and Publish It

When they handed out their business card with the 4-Way Test printed on the back, Club Aluminum salespeople asked customers to let them know if they fell short on any of the standards it summarized.

There are several ways organizations today can do something similar.

First, adopt the ABC's of Trust as a policy of the company. In all our work and agreements, we will strive to be honest, competent, fair, good stewards, constructive, cognitively humble, and kind. You can even present it as a pledge like the Hippocratic Oath. People should understand that everyone in the company should be committed to practicing the ABC's of Trust.

Second, put the ABC's of Trust on the company's website and post reminders of these 7 business virtues in break rooms, conference rooms, and other places where people gather.

Third, incorporate the ABC's of Trust by reference in employment agreements, supplier contracts, and other documents through which the company does business.

Fourth, periodically conduct meetings devoted to better understanding one or more of the ABC's of Trust. This could include training sessions but also simple discussions where people share challenges they've experienced, success anecdotes, and questions.

Fifth, find ways to measure how well the company is living up to the 7 standards.

Sixth, conduct periodic audits to assess the overall success and impact of the ABC's of Trust.

Writing the ABC's of Trust into your company's bylaws and every team or project charter helps remind everyone that the company has committed to conforming its conduct and the conduct of all employees and suppliers to honesty, competence, fairness, good stewardship, constructive thinking, cognitive humility, and kindness.

Posting it on the company's website publishes this commitment to customers, to suppliers, to government representatives, to prospective employees, and to everyone else who comes into contact with the company.

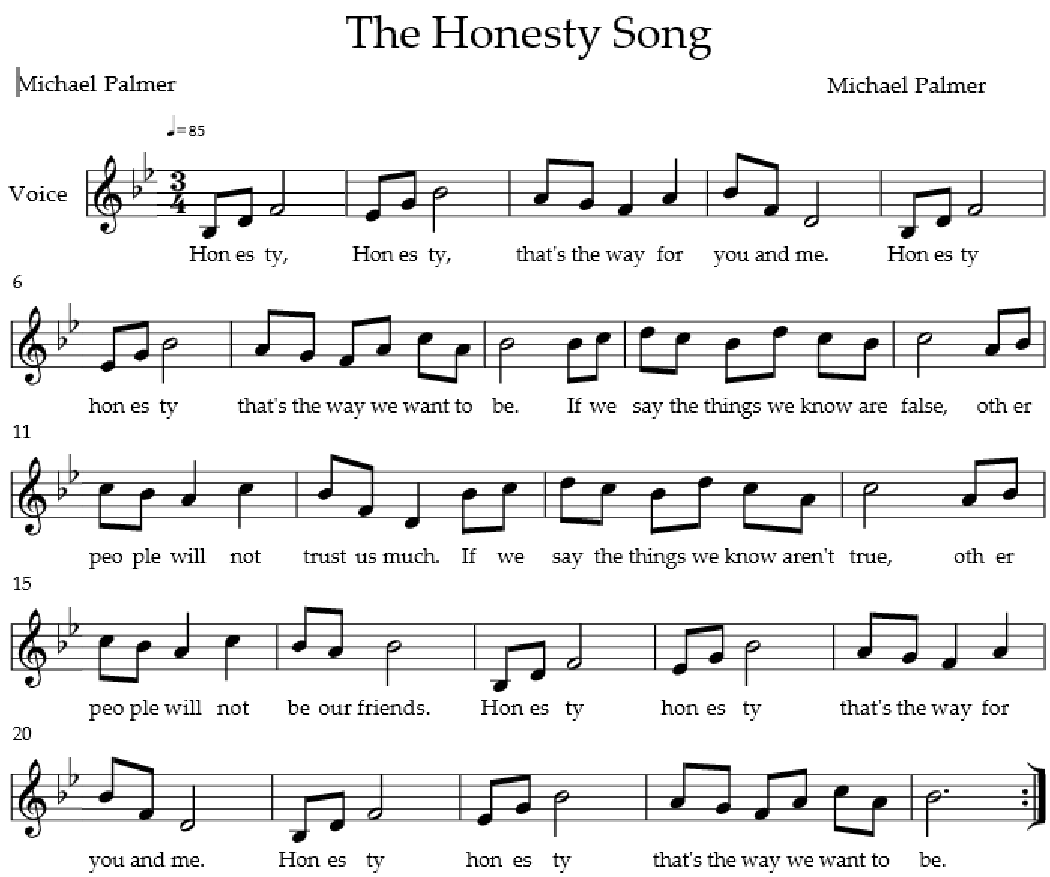
By publishing the organization's commitment to the ABC's of Trust, a company not only states its intention to live up to these standards of behavior; but it also invites everyone in the company and the world at large to help hold it accountable under these standards.

The Honesty Song

Honest, honesty
That's the way for you and me
Honesty, honesty
That's the way we want to be

If we say the things we know are false,
Other people will not trust us much
If we say the things we know aren't true,
Other people will not be our friends.

Honest, honesty
That's the way for you and me
Honesty, honesty
That's the way we want to be



Endnotes

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[3] Daniel Callahan, *The Cheating Culture: Why More Americans are Doing Wrong to Get Ahead* (Mariner Books, 2007).
[4] *See* Dan Ariely, *The Honest Truth About Dishonesty: How We Lie to Everyone--Especially Ourselves* (Harper, 2013).
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[29] The notion that being honest includes a responsibility to know what you are talking about is nothing new. The German philosopher Christian August Crusii wrote about it in 1744: „Under honesty, I understand a skill needed to perform services according to our best knowledge and capability and to do so in an unbiased manner. Unbiased means not to give either side of a question any advantage but to proceed according to the rules of truth." („Ich verstehe aber unter der Redlichkeit eine Fertigkeit, die Dienste, dazu, und so weit wir dazu verbunden sind, nach seinem besten Wissen und Vermögen zu leisten, und auch seine Verbindlichkeit jedesmahl ganz unpartheyisch zu untersuchen. Unpartheyisch verfahren aber heißt keinem von beyden Theilen um solcher Umstände willen einen Vorzug geben oder absprechen, welche in die Entscheidung der vorhabenden Frage nach den Regeln der Wahrheit keinen Einfluß ḥaben.") Christian August Crusii, *Anweisung Vernunftig zu Leben* (Johann Friedrich Gleditsch, 1744).

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[42] Francis Bacon, Aphorism XLVI in *Novum Organum Scientiarum* (orig., 1620). Original Latin text: "Intellectus humanus in iis quae semel placuerunt (aut quia recepta sunt et credita, aut quia delectant), alia etiam omnia trahit ad suffragationem et consensum cum illis et licet major sit instantiarum vis et copia, quae occurrunt in contrarium; tamen eas aut non observat, aut contemnit, aut distinguendo summovet et rejicit, non sine magno et pernicioso praejudicio, quo prioribus illis syllepsibus authoritas maneat inviolata." *Bacon's Novum Organum* (ed., Thomas Fowler, Clarendon Press, 1889). *See also* Francis Bacon, *Novum Organum Scientiarum* in Delphi Collected Works of Francis Bacon, translated by William Wood and Joseph Devey, Delphi Series Eight Book 779 (Delphi Classics. Kindle Edition, originally published in 1860) ("The human understanding, when any proposition has been once laid down (either from general admission and belief, or from the pleasure it affords), forces everything else to add fresh support and confirmation; and although most cogent and abundant instances may exist to the contrary, yet either does not observe or despises them, or gets rid of and rejects them by some distinction, with violent and injurious prejudice, rather than sacrifice the authority of its first conclusions.").
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[59] *See, e.g.,* Gary Klein, "Performing a Project Premortem," *Harvard Business Review* (Sept. 2007); Tyler Tervooren, "The Pre-Mortem: A Simple Technique To Save Any Project From Failure," Riskology
[60] Aristotle, *Nicomachean Ethics* (my translation of the opening sentence).
[61] "To make gobs of money" is probably not a sufficiently inspiring mission statement. Various controlled studies have not found earning a lot of money to be among the top motivators for taking the entrepreneurial plunge. *See, e.g.*, Christophe Estay, François Durrieu & Manzoom Akhter, "Entrepreneurship: From motivation to start-up," 11 *J. International Entrepreneurship* 243 (2013); Sherry E. Sullivan et al., "What Motivates Entrepreneurs? An Exploratory Study of the Kaleidoscope Career Model and Entrepreneurship," 12 *J. Applied Management and Entrepreneurship* 4 (2007).
Research scholars have found various forms of a desire for achievement or accomplishment, control (being my own boss), creativity, and autonomy to be the top motivating factors driving entrepreneurs. *See, e.g.*, Estay et al., supra; Cynthia Benzing et al., "A Regional Comparison of the Motivation and Problems of Vietnamese Entrepreneurs," 10 *J. Developmental Entrepreneurship* 3 (2005); Gerry Segal, Dan Borgia and Jerry Schoenfeld, "The Motivation to Become an Entrepreneur," 11 *Int'l J. Entrepreneurial Behavior & Research* 42 (2005); Scott Shane, Edwin A. Locke, and Christopher J. Collins, "Entrepreneurial Motivation," 13 *Human Resource Management Review* 257 (2003). These findings are consistent with long-standing research on the motivation to work in general. While having sufficient money to live comfortably is a factor, in the seminal study on the motivation to work, salary comes in at 6th place, after achievement, recognition, work itself, responsibility, and advancement. Frederick Herzberg, Bernard Mausner, and Barbara Block-Snyderman, *The Motivation to Work* 69 (Transaction Publishers, 1993, orig. 1959).
[62] Jim Collins and Jerry Porras, *Built to Last: Successful Habits of Visionary Companies* 58 (Collins Business Essentials, 1994). In the same speech, Packard said, "I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably conclude that a group of people get together and exist as an institution that we call a company so they are able to accomplish something collectively that they could not accomplish separately—they make a contribution to society, a phrase which sounds trite but is fundamental . . . " *Id.*
[63] Shark Tank Blog, Kids Medicine Dropper Inventor Tiffany Krumins Interview.
[64] This is a modified version of the four parts of a startup pitch (Problem, Solution, Market, Business) discussed by Chris Lipp in *The Startup Pitch* (PowerSpeech, 2013).
[65] *See* 15 of the Most Worthless Inventions Money Can Buy.
[66] Dave Smith, "What Everyone Gets Wrong About the Famous Steve Jobs Quote," *Insider* (April 19, 2019); Bob Gilbreath, "That Steve Jobs Research Quote Should RIP," *Medium* (April 24, 2016).

[67] *See* Eric Ries, *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses* (Crown Business, 2011).
[68] *See* "History of the Light Bulb," Bulbs.com.
[69] The term was coined in this use by Frank Robinson, "SyncDev Methodology" (2001) and popularized by Steve Blank and Eric Ries. "Minimum Viable Product," Wikipedia.
[70] *See* "Chester A. Carlson," *The Great Idea Finder* (accessed 12/1/2015).
[71] *See* Robert Kerns, *Wikipedia* (accessed 12/1/2015).
[72] *See* Mike Palmer, Negotiation for Entrepreneurs, *Udemy*.
[73] *See, e.g.*, Steve Blank and Bob Dorf, *The Startup Owner's Manual: The Step-By-Step Guide for Building a Great Company* (Wiley, 2012); Eric Ries, *The Lean Startup, supra*; Ash Maurya, *Running Lean: Iterate from Plan A to a Plan that Works* (2nd ed., Beijing: O'Reilly Media, 2012). Steve Blank is the man to see about startups. His blog is a trove of wisdom and valuable links that every startup leader should exploit.
[74] *See* Tony Ulwick, *Jobs to Be Done: Theory and Practice* (Idea Bite Press, 2016).
[75] *See* Eric Ries, *The Lean Startup How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses* (Currency, 2011).
[76] When she was riding high, Elizabeth Holmes said, "I think that the minute that you have a backup plan, you've admitted that you're not going to succeed." Deborah Peterson, "Theranos CEO Elizabeth Holmes: 'Avoid Backup Plans,'" *Inc.* (Feb. 2015). That thinking smacks of hubris and runs counter to conventional Lean Startup wisdom and hard experience.
[77] *See* New Coke, Wikipedia (accessed 1/1/2016).
[78] *See The Lean Startup, supra,* at 22; *The Startup Owners Manual* at 1-18.
[79] *The Startup Owner's Manual* at 11.
[80] *See* Alexander Osterwalder, Yves Pigneur, Gregory Bernarda, Alan Smith, and Trish Papadakos, *Value Proposition Design: How to Create Products and Services Customers Want* (Wiley, 2014)
[81] *See* Alberto Savoia, *The Right It: Why So Many Ideas Fail and How to Make Sure Yours Succeed* (HarperOne, 2019).
[82] *See The Lean Startup, supra,* at 77.
[83] *See* Scott Cook, "Accounting for Intuit's Success," *Stanford eCorner* (November 04, 2015).
[84] The acronym YODA is from Alberto Savoia, who uses it to emphasize the importance of getting first-hand knowledge about your Thing.
[85] Scott Cook, *supra,* n. 87.
[86] Anthony Ulwick, *Jobs to be Done* (Strategyn, 2018). The book is available without charge on the Strategyn website, which contains other valuable resources as well.
[87] Good team-building skills are important. How to build great teams is the subject of my next book.
[88] *See, e.g.*, Tom Rath and Barry Conchie, *Strengths Based Leadership: Great Leaders, Teams, and Why People Follow* (Gallup Press, 2008). This book contains a coupon for the authors' StrengthsFinder 2.0, which can help you identify your own strengths and those of other team members.
[89] The basic facts are available at Ernest Shackleton, Wikipedia (accessed 1/1/2016). Kenneth Branaugh starred in a superb movie dramatization named Shackleton; and Alfred Lansing wrote the to date best book on the subject: *Endurance: Shackleton's Incredible Voyage* 2nd ed., New York: Basic Books, 1999).
[90] David Rose, How to Pitch a VC (TED, 2007).
[91] *See, e.g.*, Steve Morlidge and Steve Player*, Future Ready: How to Master Business Forecasting* (Chichester, UK: John Wiley & Sons, 2010)*;* Steve Morlidge, *The Little Book of Beyond Budgeting A New Operating System for Organisations: What it is and Why it Works* (Troubador, 2017); Naveen Kunnathuvalappil Hariharan, "Rethinking Budgeting Process in times of Uncertainty," Munich Personal RePEc Archive Paper No. 109513 (Sept. 2, 2021).
[92] *See* Alexander Osterwalder, Yves Pigneur, Gregory Bernarda, Alan Smith, and Trish Papadakos, *Value Proposition Design: How to Create Products and Services Customers Want* (Wiley, 2014).

[93] Vendors selling to people waiting for their flights after passing security use what Tony Ulwick calls a discrete strategy. They can sell a worse product or service for a higher price because the customer has few if any alternatives besides doing nothing. *See* Tony Ulwick, *Jobs to be Done* (Strategyn, 2018).
[94] Robert Kearns spent years of his life suing Ford and Chrysler for infringing his patents on intermittent windshield wipers. He ultimately prevailed in court, winning large damage awards. But the process wrecked his marriage and consumed 14 years of his life. The story is told in the movie *Flash of Genius*. *See* Robert Kearns, Wikipedia.
[95] Intangible Asset Market Value Study, Ocean Tomo (2020).
[96] In Latin: *nihil in manu nisi prius in intellectu*. This is a play on the famous dictum of philosophers: nothing in the mind not first in the senses (*nihil in intellectu nisi prius in sensu*). No social product has ever been created that was not first conceived of and then nurtured in mental activity.
[97] Charles Duhigg, "Is Amazon Unstoppable," *The New Yorker* 48 (Oct. 21, 2019).
[98] *See, e.g.,*
[99] *See* "Ethos," Dictionary.com.
[100] *See* "Tat Tvam Asi," Wikipedia.
[101] *See* Nancy Duarte, *Resonate: Present Visual Stories that Transform Audiences* (Wiley, 2010); Nancy Duarte, "The Secret Structure of Great Talks," Ted Talk (November 2011).
[102] *See* Duarte, *Resonate, supra,* at 18-22.
[103] *See, e.g.,* Robert Cialdini, *Influence: The Psychology of Persuasion* (Harper Business, 2006); Vance Packard, *The Hidden Persuaders* (IG Publishing, 2007, orig. 1957); Frank Luntz, *Words That Work: It's Not What You Say, It's What People Hear* (Hyperion, 2007); Maya Khemlani David, "Language, Power and Manipulation: The Use of Rhetoric in Maintaining Political Influence," 5 *Frontiers of Language and Teaching* 164 (2014).
[104] This exchange is from the Shark Tank program, Season 7, Episode 8.
[105] *See* Eric Ries, *supra*, at 53.
[106] *See* Alberto Savoia, *supra,* n.36 at loc. 751.
[107] Brian Cohen, *supra*, at loc. 1332.
[108] *See, e.g.,* Timothy Wilson, *Strangers to Ourselves, supra*.
[109] Chris Lipp, *The Startup Pitch: A Proven Formula to Win Funding* 114 (Powerspeech. Kindle Edition.)
[110] *Id.*
[111] *See, e.g.,* Steve Morlidge and Steve Player, *Future Ready: How to Master Business Forecasting* (Chichester, UK: John Wiley & Sons, 2010); Steve Morlidge, *The Little Book of Beyond Budgeting A New Operating System for Organisations: What it is and Why it Works* (Troubador, 2017); Naveen Kunnathuvalappil Hariharan, "Rethinking Budgeting Process in times of Uncertainty," Munich Personal RePEc Archive Paper No. 109513 (Sept. 2, 2021).
[112] The story is told by Steven Levy, *In the Plex: How by inks, Works, and Shapes Our Lives* loc. 569-599 (Simon & Schuster, Kindle ed., 2011). Most of the sort versions of this story I've found on the Internet appear to be inaccurate in material respects.
[113] *See also* Laura Huang, "Why 'Fake It Till You Make It' Is Terrible Advice," *Time* (Feb. 5. 2020); Susan O'Brien, "The Only Time It's Okay To 'Fake It Till You Make It,'" *Forbes* (Feb. 21, 2019).
[114] Dan Ariely, *The Honest Truth About Dishonesty: How We Lie to Everyone* Ch. 2 "Why wearing fakes makes us cheat more" (HarperCollins, 2012).
[115] *Pizza Hut, Inc. v. Papa John's International, Inc.*, 227 F.3d 489 (5th Cir. 2000). *See also In re Boston Beer Co.*, 198 F.3d 1370 (Fed.Cir.1999) ("The Best Beer in America" is puffery; a generic claim of superiority as such "should be freely available to all competitors in any given field to refer to their products or services.").
[116] *See Southland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134 (9th Cir. 1997).
[117] *See* Colleen Tressler, "'Going out of business' sales: Are the deals real?" Federal Trade Commission (2017).
[118] Many studies have been conducted for more than 70 years on the general topic of our resistance to changing our minds. *See, e.g.,* Leon Festinger, *A Theory of Cognitive Dissonance* (Stanford, 1957); Albert H.

Hastorf and Hadley Cantril, "They Saw a Game," 49 *J. of Abnormal and Social Psychology* 129 (1954); Charles G. Lord, Lee Ross, and Mark R. Lepper, "Biased Assimilation and Attitude Polarization: The Effects of Prior Theories on Subsequently Considered Evidence," 37 *J. of Personality and Social Psychology* (1979); Leigh Thompson, "They Saw a Negotiation: Partisanship and Involvement," 68 J. *of Personality and Social Psychology* (1995); Dan M. Kahan, David A. Hoffman, Donald Braman, Danieli Evans, & Jeffrey J. Rachlinski, "They Saw a Protest - Cognitive Illiberalism and the Speech-conduct Distinction," 64 *Stan. L. Rev.* 851 (2012). On strategies for persuading people to see things differently, *see* Howard Gardner, *Changing Minds: The Art and Science of Changing Our Own and Other Peoples Minds* (HBR Press, 2006).
119 There are many good resources on listening to understand, many for free on the Internet. The process described here is often called going up the ladder of inference. Among the books that help with listening to understand, I recommend Edgar Schein, *Humble Inquiry: The Gentle Art of Asking Instead of Telling* (Oakland, CA: Berrett-Kohler Publishers, 2013) and Douglas Stone, Bruce Patton, Sheila Heen, *Difficult Conversations: How to Discuss What Matters Most* (2nd ed., New York: Penguin, 2010).
120 Our word "respect" is derived from the Old French word "*respect,*" which comes from the Latin *respectus,* which was a past participle of *respicere* (look back at, regard, consider). Etymonline.
121 *See* Andreas Teuber, „Kant's Respect for Persons," 11 *Political Theory* 369 (1983) (discussion of respect for persons in Kant, Locke, Rousseau, Rawls, and Nozick); Immanuel Kant, *Grundlegung zur Metaphysik der Sitten 66 (orig., Johann Friedrich Kartknoch, 1785)* ("Handle so, daß du die Menschheit sowohl in deiner Person, als in der Person eines jeden andern jederzeit zugleich als Zweck, niemals bloß als Mittel brauchst." "Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end."); Leonard Nelson, *System of Ethics* 98 (Yale Univ. Press, 1956, translated from *System der philosophischen Ethik und Pädagogik*, 1932, by Norbert Guterman)("Subjection of our will to the condition that the dignity of the person must be upheld is what we call 'respect.' Hence, we may express the condition we have just established in the form of this imperative: 'Respect personal dignity!' I call this postulate 'the principle of personal dignity.'").
122 Bill George, *Authentic Leadership: Rediscovering the Secrets to Creating Lasting Value* 23 (Jossey-Bass, 2003).
123 *See* Martin Buber, *I and Thou* (Scribner's, 1958, orig., *Ich und Du,* 1923).
124 Roger Fisher and Scott Brown, *Getting Together: Building a Relationship that Gets to Yes* 37 (Houghton Mifflin, 1988).
125 *See* John A. Byrne, *Chainsaw: The Notorious Career of Al Dunlap in the Era of Profit-At-Any-Price* (New York: HarperBusiness, 1999).
126 Herbert J. Taylor, *God Has a Plan for You* 40-41 (Carol Stream, IL: Creation House, 1972).
127 *Id.* at 42.
128 *Id.* at 40.
129 Lawrence G. Foster, *Robert Wood Johnson: The Gentleman Rebel* 113 (Lillian Press, 1999).
130 *Id.* at 192.
131 *Id.* at 195.
132 *Id.* at 170.
133 *See id.*at 187.
134 *Id.* at 199.
135 *See* Lawrence Foster, *Robert Wood Johnson and his Credo* 9, 28-31 (Lillian Press, 2008).
136 Lawrence G. Foster, *Robert Wood Johnson: The Gentleman Rebel, supra,* n. 124, at 171..
137 *See, e.g.,* Edward Schein, *Organizational Culture and Leadership* 39-61 (3rd ed., Jossey-Bass, 2004); Rob Goffee & Gareth Jones, *The Character of a Corporation: How Your Company's Culture Can Make or Break Your Business* 1-20 (HarperBusiness, 1998); Ray Dalio, *Principles: Life and Work* chapter 1 (Simon and Schuster, 2017).