Pitching Tip 5: You need to have "skin in the game"

By Allon Raiz

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

Photo by Anna Nekrashevich from Pexels

Through years of experience, I've identified a number of pitching techniques critical to attracting investors and funders looking to back small businesses. Here I share important tips to help any entrepreneur to navigate their way around pitching to investors to scale their business.

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Once your initial pitch to potential investors is concluded, you will invariably move on to talking them through a detailed three- to five-year forecast of your business's income and expenses. Upon receiving a breakdown of your financials, seasoned investors will first look at the bottom line of your income statement, and then immediately thereafter at the remuneration line.

Tip 5: Don't include market-related salaries

If you, as the director (or owner) of your company, have listed your remuneration as being market related, or vaguely close to market related, investors will generally either switch off or shy away from the deal.

New businesses are risky endeavours with high probabilities of failure, and investors will feel more comfortable if they see that you are also willing to experience some level of risk and discomfort during the ramp-up phase to profitability. This is a critical point and one of the key determining factors that investors will look at because, at the end of the day, if they invest in your business, they too are putting up their money and name behind your business.

If you, as an entrepreneur, are structuring your operating costs so as to ensure that you are going to receive a market-related salary, this highlights the fact that there is no sacrifice or discomfort on your side, and therefore you feel little to no pressure to get your business to profitability as quickly as possible. This is a big no-no when structuring your pitch because investors will not be satisfied with you taking a relatively large salary home, while they are taking all the risk.

I have witnessed deals ranging from instances where an entrepreneur has allocated no salary or even a significantly discounted one to themselves that ramps up according to different milestones that are negotiated between them and the investor. In most instances when your willingness to make sacrifices is demonstrated upfront, investors will be quite prepared to ensure that your salary increases as the profitability of the business increases.

I therefore always advise entrepreneurs who are seeking investment to ensure that their remuneration reflects "skin in the game" and some level of discomfort at the possibility of losing something, which can be remedied once the business becomes profitable or hits mutually agreed-upon targets.

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ABOUT ALLON RAIZ

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

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