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Here’s what investors want to see in your startup’s product

The world was not ready for the iPhone in 1993 when Apple launched it’s ill-fated Newton. I have a huge amount of empathy for the founder who is too early, too narrow, or too buggy. One of my startup war stories is about the company three of us founded that was YouTube a couple years before YouTube. We had the tech and a product and revenue, but we couldn’t get the funding. It was our own fault, because we were too green to position and pitch it properly.

Don’t let that happen to you. Here are the five questions about your product investors will need answered before they’ll invest.

Question 1: Does the thing work?

The Newton, while innovative as hell, was hampered by buggy software at its most critical point, the handwriting feature. The Newton should remind every entrepreneur that not even Apple can escape the gravity of a product that doesn’t do its primary function to perfection.

> *Investors don’t invest in your idea, they invest in the execution of your idea.*

This creates the entrepreneurial paradox of needing funding to get the prototype built to get the funding. The solution, of course, is the minimum viable product, the MVP, but this is where a lot of capital-seeking entrepreneurs get it wrong.

The minimum part of MVP doesn’t mean minimally functional. An MVP has to be slim, it only has to do a few things, but it has to do them to perfection. You can go with no code to build an MVP, but the coding still has to be tight. You don’t need to know syntax, but you need to know process, flow, and error handling, and all those things have to work every time.

Finally, you can only get away with so much fake-it-til-you-build-it magic. The parts of the product that need to be automated for the product to *scale*can be manual. The parts that need to be automated for the product to *work* need to be automated.

Question 2: Can you sell the thing?

If Teslas were only still available at $100,000 and up, Tesla would not be around today. That almost happened, for that very reason.

Ask any founder if their product will sell and how much they will sell and you can probably already guess that the answers will be “Of course” and “A lot.” But one of the questions that doesn’t get asked as often as it should — “Yes, the product will sell, but at what price point?”

Last week, one of my startups conducted a survey of our current customers, and in it, we asked how much value they were getting out of the product. The answers were multiple choice: 1) Less than the actual price they paid. 2) Exactly the actual price. 3) More than the actual price.

Enough of them said *more* than the actual price for me to be comfortable, which was the majority, but definitely not all of them.

Almost every time I’m negative on a new idea for a product it’s because I can’t find enough value to justify the price necessary to create respectable margins based on known costs. So let’s break that sentence down from back to front:

Costs: You need the known costs, the unknown costs, and future costs. This is the basis of your price.

Margin: Every industry and every sector has margin limits. In technology, the margins can be astronomical. In retail, they’re usually razor thin.

Price: This is very simple. Costs + Margin = Price. No getting around it.

Value: This is what the customer expects from the product, whether they quantify it or not (and when they don’t quantify it, it’s “gut”). When they do quantify value, and when they believe there is more value than what they’ll pay, they’ll buy the product.

If customers aren’t buying, you can adjust value, cost, and price, like sliders.

Can you reduce costs to get to a more attractive price without reducing value?

Can you increase value without increasing costs and price?

If the answers to these types of questions are “no,” the thing won’t sell.

Question 3: Is there a market for the thing?

It’s not a secret, but you can definitely make the argument that Quibi primarily failed because there was no crossover between people who value TikTok as entertainment and people who value old-school event television as entertainment.

It’s that classic startup case of 1 + 1 = 0.

The market question is the biggest red flag in the eyes of many investors and it’s also the question that founders have the hardest time answering. Most founders come at it too broadly: “This product is for college students, and there are a zillion college students in the world.”

That doesn’t mean anything. Think of the addressable market question like an ailment and a drug:

Do enough people experience enough pain from the problem, and is your solution effective for enough of those people and reduce enough of that pain?

If you define your market, positioning, and messaging too broadly, you won't sell any product. If you define it too narrowly, you won't be able to scale.

Question 4: Can you scale the thing?

Scale is what's going to define the return for the investor, and it's also the aspect of the product that's the most difficult to predict.

But you can plan for it.

Amazon started life as an online purveyor of print books and CDs, two things we really don't need anymore. They scaled horizontally and vertically until they essentially ate all of eCommerce.

There are unlimited ways to scale, but there are really just two distinct ways to create the kind of scale that most investors are interested in.

1. Solve the problem tangential to the problem your product solves, or at least reduce additional friction around the solution. This is vertical expansion — helping the customer do the next thing they do after they do what your product does. In Amazon terms, this means perfecting online ordering then moving to solve two-day shipping.
2. Solve a similar problem for a market tangential to your current market. This is horizontal expansion. If you have a great product for the medical industry, maybe you expand to the hospitality industry. Or move from a marketing data vertical to a finance data vertical. Or move from books and CDs to… well, everything, over time.

Question 5: Is there a catalyst for the thing?

Every startup has three stories. There's an A story, that's what the business is focused on today, and a B story, what the business expects to grow into in three to five years. What really gets investors interested is the C story, the billion-dollar version of the company that happens when growth produces more than just revenue.

For a long time, the answer to the C story question was "data," but that's not a compelling C story any longer. Data is cheap. We have tons of it now, and it says so much about so many things that a lot of it starts to sound like gibberish.

If the answer is data, the C story is what you can do with that data. If the answer is a technology framework, it’s got to be both universal and game-changing. If the answer is a new science or process, it’s got to be patentable and the applications have to be limitless.

So every C story needs a catalyst.

All the VC-backed startups I’ve been successful with have either built or are building their C story on such a catalyst.

For Automated Insights, it was the onset of flexible computing power provided by the cloud in the early 2010s. For GetSpiffy, it was the multiple advancements in mobile software and mobile broadband in the mid-2010s that made mobile service a reality for companies like Uber and Lyft.

There’s another catalyst happening right now with the mainstream acceptance of video communication via Zoom and the emergence of no code pushing a huge C story narrative around eServices. There are other, smaller catalysts happening across multiple sectors and industries. It’s a matter of finding the right one and riding it.

But here’s one of the things I love about startups. You can answer no to all five of these investor questions and still build a successful product. In fact, I’ll be the first one to tell you that if you can build a successful company without outside investment, do that. I’ve done it.

These are more than just guidelines for seeking investment, these are truths that every business should chase. When you can build, sell, scale, and grow, you’re in the driver’s seat, whether you need investment to succeed or not.

This article was originally published on Medium by Joe Procopio

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