Strategy

Equity Storytelling – To tell is to sell

By Veit Etzold and Thomas Ramge

Investors pay more for a company, when they buy its story. In their book *Equity Storytelling*, management consultants Veit Etzold and Thomas Ramge demonstrate how a good story can boost the value of your business.

One hundred million pounds sterling. That was what an equity story turned out to be worth. In fact, the story was written for an Islamic bank in London by one of the two authors of this article. The British seller had added up the facts and figures and had put the value of the firm at around 100 million pounds. And he would have been very happy to get exactly that price. Then, more by accident than design, he asked a major strategy consultancy for advice on how "to give the bride a bit of a makeover". In the script of the equity story the bank's actual figures, which were fairly reasonable, were consigned to something of a bit part. In the storyteller's version, the history of the founder, the management and its location in London with its large Arab community were all embedded in the big picture "Islamic Banking" – and consequently in the success story which this banking sector has enjoyed in recent years. That caught the imagination of potential investors. In the end the transaction brought in 200 million pounds for the seller.

The value proposition of equity storytelling can be summed up in three sentences:

- *A good equity story turns a company into something you can grasp.*
- *Which stimulates the imagination of potential investors.*
- *That bumps up the value of the company.*

Why is that? The simple answer is because we love stories.

Every grandparent knows that a good story goes straight to a grandchild's head and if it is exciting to the belly and if it's happy, straight to the heart. After every mission, fire fighters in the USA tell each other the stories they have just experienced. And time is officially allowed for that because the storytelling exercise is modern knowledge management with age-old means. Things were the same with the yarns spun round the camp fire in the Stone Age. Just that the protagonists in the stories, mammoths and sabre-tooth tigers, were rather different.

Man is a born storyteller, a fact that can be proved by brain research. In the brain there is a kind of bouncer, a doorkeeper which filters out unwanted information. It is known as the amygdala. The amygdala has a pretty demanding job

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since it has to protect us from data overload, from being swamped with information. And because ever since the Stone Age we have told each other our "best practices" in the form of stories, the amygdala shows no mercy in booting out anything that does not sound like a story. Fact-laden lectures and dull PowerPoint charts are treated as undesirables.

In no other context are stories more valuable than with venture capital, private equity, mergers and acquisitions and stock market flotations. For all those who wish to sell a company, it is well worth becoming well acquainted with the techniques of those who literally make their living from selling stories. Three professional skills are requited:

1. Recognising potential for positioning the company uniquely
2. Moulding diverse facts and story elements into an exciting story
3. Telling the story to the addressee so that he "buys it".

It might also be called Think – Tell – Sell.

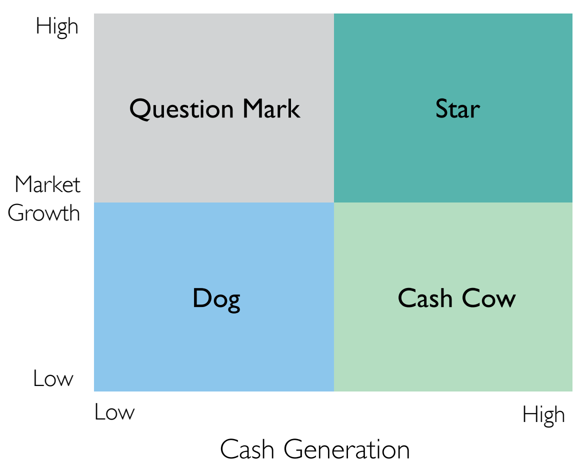
Think

Anyone wishing to tell company stories with the aim of bumping up the value first has to do his analytic homework. This includes understanding all the elements in a manner fit for storytelling: understanding the company itself, its founder, its business model and its products and/or interaction with customers. And of course all these components have to be contrasted with the competitor, whom in accordance with good storytelling tradition we shall call the "villain".

Here it is important first of all to do your homework. In ice skating that would be the compulsory figures; the right story and performance would be the free style.

Equity storytelling starts with a portfolio analysis. Where does the hero of the story stand – the company that you wish to sell? A portfolio matrix is a good starting point. That of the Boston Consulting Group is the classic case (see Illustration) What is your company?

Positioning your company with the BCG Portfolio Matrix



Source: based on the BCG Portfolio Matrix ™

Naturally, it's best to be a "**star**". As long as the star is still a star, selling is a no-brainer. You should tailor the story round the market leadership, the high profits and the uniqueness of the product and, above all, not sell your baby too cheaply. But if you should have a sneaking suspicion that your star might one day metamorphose into a "dog", focus on the advantages that the company still offers and on the possible synergy effects that will permit the star to continue in its stellar state in combination with another company.

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If your company constitutes a **cash cow**, you should stop and think whether you actually want to sell it at all. It would be more astute to keep on milking it for as long as it brings in money for the company. The ongoing proceeds that you can generate (discounted) with the cash cow might be much higher than a possible selling price and you should hang on to the cash cow.

If you are a "**question mark**", then the vision and the possibilities of the company are the main aspect of the story. You show what a lot has been achieved so far and argue that with an injection of finance you could grow a lot faster and be more successful and profitable.

However, should you be a "**dog**", things can be tough. "If the company is so great, why do you want to sell it?" is a question you are often asked by investors in such situations. Here you have to align the story of the dog even more closely with the strength of the buyer and stress possible synergy effects.

Regarding competition a simple analysis of the "5 forces" based on Porter is a help. Admittedly an old tool but one that is still very effective:

Who are your direct **competitors** and how can they harm your business model? Who are your **customers**? Do they accept higher prices or are they used to getting cheap products? What **suppliers** do you need and how must you negotiate with them? What new **operators** can make life hard for you, such as happened with established airlines and the budget carriers? And what **substitutes** are there, meaning companies which do not offer the same as you and are thus not direct competitors, but nevertheless might still make your service redundant or your product something that can be dispensed with?

When you have clearly positioned your product and know the "five forces", you can move on to the first part of the free skating: the story!

Something that is part of every good story, but is nearly always missing in the communication between company and society, is the hero and villain of a story. Yet in sales pitches communication takes place as if this threat did not exist. As if everything in the firm had always proceeded smoothly.

Tell

Things are no different for an equity storyteller than for a novelist: if the story traces the development of a young talent to a mature hero, not forgetting to describe how the villain was vanquished, then it will be sure to capture the attention of the potential investor. Three factors are required here to be successful:

1.Message and messenger – tell your story

In the case of a start-up that was built up from scratch by the founder, this is a strategy that should really be taken for granted: linking the personal history of the founder with the start-up. It should be but it isn't. In our practical consultancy work we have repeatedly experienced that even the owners of companies that are to be sold to private equity firms tell the story of their company as if it had nothing to do with them personally. But, unfortunately, a story that has nothing to do with the person relating it meets with disbelief. The "doorkeeper" in the brain requires a concrete person he can assign the story to. "You don't believe the messenger if you don't believe the message." A thrilling personal story about the founder with all the highs and lows is a perfect visiting card for creating interest and trust. And the good news is that deep down inside everybody has an exciting story to tell. These treasures just have to be brought to the surface.

2.The elevator pitch – be convincing from the word go

"You never get a second chance to make a first impression", as the saying goes in management and particularly in human resources. Unfortunately, this often gets forgotten in sales negotiations and pitches. The first sentence of a short presentation in sales talks or an elevator pitch is often so boring, hackneyed and vacuous that the listener no longer feels any need to carry on listening. We have met with founders and proprietors who start their pitch with a market analysis that some consultancy or other has drawn up. Apart from the fact that the question then arises what exactly the firm wants to sell (the company or the consultancy), such an opening is dull and trite and what is more has absolutely nothing to do with the firm. But that is fatal. Normally a listener is prepared to allow an advance of three minutes on trust. After that, when it gets boring, he switches off. And what is said in the middle is forgotten. That is why the beginning of all places needs a provocative statement or a big claim or a good story. Anyone who fails to attract attention at the start of a story has lost out for good.

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3. No story without a hero and no hero without a villain!

Something that is part of every good story, but is nearly always missing in the communication between company and society, is the hero and villain of a story. Every story needs a hero. And every hero needs a villain. No Adam and Eve without the devil, no Luke Skywalker without Darth Vader, no Superman without Lex Luthor.

Yet in sales pitches communication takes place as if this threat did not exist. As if everything in the firm had always proceeded smoothly. Apart from being implausible (when does everything always go according to plan?), a founder team that has already successfully withstood a few storms (bad guys), creates more trust on the part of investors than a bunch of whippersnappers who seem quite undeservedly to have had everything handed to them on a plate. Good storytelling also helps to tackle frankly and head-on dangers for the company without descending into fatalism. A "villain" also helps to create a "what if" situation, which provides the necessary urgency, both in project implementations and in sales situations. What will happen if the prospective purchaser does not buy? And what opportunities is he passing up?

Sell

Unfortunately a wonderfully conceived equity story loses its value if the founder/CEO/head of communications makes a poor job of telling it. Experience in our consultancy projects repeatedly shows that at presentations most founders and business decision-makers tend to be self-taught. And they would often benefit from serving a traineeship with the TED talkers. Because TED talks are outstandingly well-suited as a source of inspiration and a construction manual for equity pitches. The TED keynote speakers are (almost) always convincing on three levels:

1. An authentic personality
2. A well-structured story will well-weighted contents which can also be summed up in a core message
3. An impressive staging

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Authentic personalities have an answer to the question "why". If a founder takes the "why" as the starting point for devising his pitch, and has a conclusive answer up his sleeve, his demeanour will seem authentic on the stage of the pitch – and it will convince.

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Simon Sinek's adage holds true:

People don't buy what you do. They buy why you do it.

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The second major parallel between a TED talk and an equity pitch is the length of time. A TED talk lasts 18 minutes. A period of between 15 and 20 minutes is also a good slot for hammering home all the important messages and facts to potential investors without overtaxing their span of attention. Most TED talks are structured as follows:

1. Introduction (2 to 3 minutes)
2. Main body (8 to 10 minutes)
3. Conclusion (2 to 3 minutes)

TED talks often begin with a personal story. As a rule of thumb, the main body takes up two-thirds of the presentation time. It often makes sense to make an unobtrusive reference to the transition from the introduction to the main section. For example, an appropriate phrasing could be: "in the next ten minutes I will demonstrate to you that this little story (from the introduction) harbours a much bigger one. For many people this topic is relevant and we can find a concrete solution to the problem. Why we do things differently from the others. And why we earn more money with this solution than the others do."

Given a structure, the prototype of the main body of equity pitches looks like this:

- What do we do? The additional value of the company for the customer
- What makes us different? Demarcation from competitors
- What will we be like? Goals and visions

Even though it often does not seem like it to those making the pitch, ten minutes is plenty of time for information. At least, plenty from the listeners' angle. Then they want the speaker to start winding things up.

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How the speaker starts off is crucial in deciding whether the listeners will give him any sort of hearing. The conclusion plays a major part in deciding whether they will remember him and if so, how he will be remembered. And whether the speaker will pull off the feat of triggering an impulse to act. In the equity pitch that would be the start of serious negotiations.

A good conclusion for equity pitches can be:

- A snappy summary
- Reference back to the introduction, i.e. the why of the company
- A truly surprising number which directly plants the right idea in the minds of potential investors: namely, I've got to get in on this!

And finally there is the level of the way the event is staged impressively. Here equity storytellers can learn from TED talkers. Summed up on the back of an envelope, the most important lessons are:

- As few slides as possible. The best pitches have none at all.
- Work with interactive elements and props.
- Use flipcharts for visual talk, meaning catchy drawings which make your thoughts memorable.

The Moral of the Story

May the villains in search of capital die the death through PowerPoint.
Heroes tell equity stories with the tools of storytelling.
Then the story becomes the ***$tory.***
To tell is to sell.
Happy ending.
And now go and get your money!

About the Authors

Dr. Veit Etzold has worked in banking, strategy consulting and executive education. He is also one of Germany's top thriller authors and keynote speaker and consultant on storytelling. You may contact him by email at *info@veit-etzold.de.*

Thomas Ramge is a staff writer of the German business magazine brand eins and a contributing editor to *The Economist*. He has published several bestselling non-fiction books and won numerous national publishing awards. His first novel will hit bookstores in September. You may contact him at *mail@thomasramge.de.*

Veit and Thomas recently founded *equitystorytelling by etzold & ramge*, a consultancy specialised in using the tools of storytelling in the context of private equity, venture capital and IPOs. Their book *Equity Storytelling – Think, Tell, Sell* was published in March 2014 by Springer Gabler Publishing.