Startups, show your worth - How early-stage startups can use metrics to prove they're a hot prospect for investors

Anthony Rose, SeedLegals CEO, joins Perdie Alder & Margaret Anne Coyle, co-founders of Spice Startups, to explore how investors rely on evidence to spot the next superstar.

Temps de lecture : minute

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It's rare to find a business of any size that speaks openly about its financial performance. It's even less common to find a pre-revenue startup talking about its metrics. Why is this the case? Is it modesty, embarrassment or caution?

Or is it that founders simply don't understand the significance of metrics and the effect on their future success? If you ask an early stage investor, or early stage founders about metrics, you'll likely get responses like: *There are no metrics pre-revenue, I don't look at metrics pre-revenue, it's all gut instinct and team, I don't have metrics... I don't even have customers or a product!*

When founders have an idea, they often spend ages visualising it. It's a common reason for failure: the founder spends too much time thinking and not actually *doing*. Without direction and focus on metrics from the offset, we often see founders spending too much time on the wrong things when they should be out there getting validation on their MVP.

Investors can sense this, so to close the gap between "I love what you're doing!" and "I'm in!", early stage founders need a pitch deck that's focused on growth, traction and how they're measuring these.

Investors want data

From our experience working with startups at SeedLegals and Spice, we've seen a rise in investors demanding tangible indicators of success. Investors want to be given a reason why they should put their money behind you. They focus on traction and return on investment - if you're taking their money, they need to know how it's going to be used and where it fits into your business plan. Therefore, the more you can show potential investors, the better. The less insight you're willing to show an investor, the bigger they would have to take (and probably won't).

Use early growth indicators to show your potential

On the surface, it can seem that founders disregard *all* metrics. When we see pitch decks without metrics and we ask why, we find that some founders are keen to demonstrate user engagement but they don't know how. This is where early growth indicators come in. While they can be quantitative, they can also be qualitative and show rich, descriptive, invaluable data.

Here's what you need to do when preparing your metrics, with some examples of how startups in the Spice network have used pre-revenue metrics to impress investors:

Be realistic

Growth indicators are vital for investors. Fundraising can last up to six months, and unsurprisingly, investors don't want you to wait until you've got their money to start showing off what you've promised you'll do with it - they want to see you demonstrating this now.

When it comes to sharing your stats to investors, it is a balancing act between giving early data (which might not be particularly amazing) and your projections for future growth.

Investors need to see your revenue - or at least revenue-making ability. The people you're talking to have plenty of experience and can easily see through unrealistic claims. Strike the balance between what you've achieved so far and what you could realistically deliver - this shows investors that you're sensible and have reasonable expectations. With realistic metrics, you'll reassure investors that they're backing a stable venture.

Make the most of what you have

If you're in the fortunate position of having some early users, talk to them and get as much insight as possible into how they use your product. To plan for their future marketing outreach, French workplace experience startup *Offimizer* began by talking to existing customers, which resulted in pivoting their focus and achieving a 100% demo-to-proof=of-concept conversion (historically 33%) with organisations including Electrolux and Hewlett Packard.

Also, LinkedIn is your friend. 25% of the 100+ startups in the Spice network reported positive results from LinkedIn. In under four weeks, cyber security startup *regulativ.ai* generated eight conversations with potential customers.

Match your metrics

There's no one-size-fits-all approach to choosing and sharing metrics. What one investor expects differs from another, with different expectations across sectors. What's important is to prove to investors that you have a good product and market fit.

We recommend startups speak to customers or potential customers to better understand why they use your product or service and how it helps them, so you can pass this information on to investors. At the pre-seed stage, qualitative feedback is just as useful as quantitative, and interviews are a great way to get valuable feedback from users and potential users.

For revenue-generating startups, this may mean rather than increasing the *number* of customers you have, you increase the *value* each customer brings. Creator merchandising platform *terrible** spent time doing exactly this, and doubled their average order value to £1000.

Prioritise what moves the needle

As an indicator of success, revenue comes later down the line so when you're pre-revenue, identify and prioritise the top functions that will lead to revenue growth. You can hone in on the early growth indicators that align most closely with your future revenue. Look at the data you're collecting and if it isn't quite demonstrating your future growth potential, focus on something else. Engagement data such as how many conversations you've had with (potential) users and what you learned), potential leads, follow up conversations are valuable to demonstrate appetite.

Referrals can also indicate future opportunities. For three weeks, data analytics startup *Adadot* focused on warm intros and generated five times more leads, doubling their active enterprise-level proposals.

No revenue? No problem

Avoid the temptation to hide stats you think are less than impressive. We're seeing more privately-owned companies adopt an open dialogue about their financial performance. For example, *Kalendar AI* recently closed a round sharing all their financial figures to date.

Even if you don’t have impressive revenue stats, it doesn’t mean you’re uninvestable. Instead, founders need to find other ways to show they’re primed for success and already on the journey to profitability.

For resources to help your startup get funded, faster, visit
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