Founders, here's what you can do to weather the market downturn

The recent market crash, particularly in the tech world, has created an uncertain and unfavourable environment for startups. For founders, there are a number of ways to preserve your business and ride out the market instability.

Temps de lecture : minute

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On July 11th, buy-now-pay-later giant Klarna announced their latest fundraising round, hauling in a whopping $800M from some of the world's top investment firms.

There was one noticeable difference from Klarna's previous mega-raises—this valued them at just $6.7B, down 85% from the $45.6B valuation they'd raised at a year ago, restoring their worth back to pre-2020 levels. A company that many have touted as one of the next Big Tech firms appears to have been stopped firmly in its tracks by an abrupt market correction.

Founder Sebastian Siemiatkowski attempted to paper over some of the cracks on *Twitter*. He highlighted their consistent growth and ability to turn a profit: two key features that appear more important now than ever.

Founders will no doubt be facing up to an uncertain 12-to-24 months ahead. Now, more than ever, making the right decisions will determine the longevity or slow death of your business. Here's what you can do to weather the storm.

Look to extend your runway as much as possible

Founders should approach the fundraising landscape with an appropriate dose of pessimism. While some investors will still be signing cheques, many will be looking to sit on the sidelines for some time now to see how things unfold. Now, more than ever, investors will be reviewing the opportunities they have with great care, ensuring they’re doing the right due diligence before jumping into any investment.

This leaves founders with some hard decisions to make. Money, whether you like it or not, should be at the front of your mind at the moment. More specifically, how much you have and how long it will last you if you can’t raise additional funds.

Founders should be looking to extend their runway as much as possible. This is important not just for preserving your business, but also for talking to investors. They’re much less likely to go for a business with three months left in their bank account, as opposed to one which is taking the necessary steps to extend their lifespan.

You can do this by cutting down on unnecessary costs; but this can also be done through shifting away from a growth-at-all-costs approach and towards a revenue-based model. Which leads us nicely to the next point…

Raise—and change your narrative to investors

You can’t extend your runway forever, therefore founders should still be looking to raise as soon as possible. As ever, fundraising is optimising for cash in the bank, about raising money when you can as opposed to when you need it.

Investors, however, will be looking for something different in this current market, which may require you to change your approach and the story you're telling. Formally, founders could spin the following narrative: we're focusing on getting our first million customers now, and then we'll work out how to monetise. But things have changed, according to Alexandre Ikeni, Fintech M&A Partner at financial advisory firm *NOR Capital*.

"Investors aren't looking for that pure growth story any more. Founders have got to demonstrate their ability to generate profit relatively fast, as in within 6 to 9 months," Alexandre says.

> *This requires founders to be able to show that primarily they understand the problems they will face as a business, but more importantly that they're able to crack those problems in a reasonable time frame in a way that will help them generate revenue. Some call this the 'path to profitability'.*

NOR Capital can help in this department. One of their key services is connecting founders to the right investors depending on sector, geography, and so on. This includes a view of the new generation of early stage funds across Europe, a "greenfield" of potential investors who are willing to write cheques for the right companies, according to Alexandre.

As well as typical equity fundraises, founders should also look closely into non-dilutive instruments for raising capital. This might include revenue-based financing, venture debt, or recurring revenue financing.

Consider the different stakeholders you can work with, and what they can offer

Your priority as a founder is figuring out how to be autonomous while growing a business: but then it's about generating a margin and growing a positive unique economic position. Times of uncertainty, Alexandre says, will push founders to really understand what are the levers available to improve that unique economic position.

To do this, you should try to keep as many options on the table as possible. In the tech ecosystem, there are many potential stakeholders to partner with, receive investment from, or even consolidate with.

The dual track strategy—founders considering an exit will simultaneously explore paths towards an IPO and a potential M&A—is something that NOR advises for many of its clients at this stage. If you are fundraising too, this may be advantageous: investors like to get a sense of the return on their investment, and this will help them to see your potential roadmap.

This may also sit alongside a fundraising process, to ensure that all options are on the table for founders should they need them.

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One advantage of working with NOR is that they can have difficult conversations on your behalf with potential partners. “With our relationships, we can ‘soft sound’’ the market—basically, we can work out if the appetite is for a commercial collaboration, a venture investment, or an M&A,” Alexandre says.

Ultimately, this is about being well prepared, having the conversations well in advance before you need to have them, and avoiding any decision being last minute.

What can founders learn from this market

instability?

Plummeting valuations, venture capital drying up—it may not feel like the best time to be starting a new company. But Alexandre disagrees, for two reasons.

First of all, while scaleups may be facing more challenges, startups are relatively shielded from some of the worst effects. “You don’t have a big cost base, you probably have a small core team, which gives you a lot more funding flexibility. So it’s really not a bad time to test and try things out.”

But more importantly, it’s always a good time to be a founder. There are few things you can accurately predict as a founder—when you’ll close your funding round, when the market might even out. The only way you can be sure is by trying. “If you have a good idea, you’d rather test and try right now than wait until someone else does it instead of you.”

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