As investors pull back, this is what startups should know about raising investment in difficult economic times

Getting investment for your startup can be daunting, even in good economic conditions, but as investors pull back amid a wave of uncertainty, tech layoffs, and recession fears, startup founders are prepping for the worst when it comes to securing any kind of investment.

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18 May 2023

But should founders really believe the daunting headlines? And will the current economic climate really change whether investors are prepared to make you an offer? There's no one-size-fits-all answer, but here are some considerations you should mull over if you're preparing to secure funding for your business in a difficult economic climate.

Whilst it's true that funding is slow down over, it depends on your business stage

Firstly, let's clear something up. Funding is slowing down *overall*, but not all sectors or stages of business are declining at the same rate.

According to reports by *Beauhurst*, it's the established stage businesses (like scale-ups) that have witnessed the biggest decline in investment amount from Q1 2022, as it fell by 85%. This stage also saw the greatest fall from Q4 2022 by 43%.

In comparison, the seed stage fared the best, falling by just 15% from Q1 2022 and 26% from Q4 2022 - which is good news for early-stage startup founders.

If your sector is buoyant, it’s still a good time to raise

Now more than ever startups need to focus on two key areas: their financials and the state of their market.

Investors will interrogate deeper than ever when it comes to your finances so make sure your balance sheet, cash flow statement and income statement are watertight, and be thoroughly prepared for an investor to scrutinise your finances right down to the last detail. Unit metrics will come under scrutiny too - particularly by funds, and for businesses that already have revenue, so make sure you’re prepared to explain your customer acquisition cost, customer churn, and customer lifetime value - the three key unit metrics.

Now more than ever, there will be a greater focus on delivering profit rather than growth at any cost.

If the market your business operates in is currently resilient, or better, doing well, then highlight this when you pitch and support your statement with statistics.

If your business operates in a sector or at a stage that is (relatively) buoyant then now could still be a good time to raise, but it’s imperative that you focus on investors who back businesses at your stage and in your sector. Don’t waste time talking to the wrong people.

If your sector isn’t doing so well, it’s okay to delay your raise

If your business stage or sector is experiencing a decline in investment, think about whether you could extend your runway a bit further and delay your raise. Raising investment is time consuming and energy intensive - don’t do it if you don’t believe you have at least an 80% chance of succeeding.

Your time and effort may be better focused on running your business, and focusing on building organic growth.

VC funding is still very active

If you’re planning to secure VC funding, then it might also be worth still going ahead with your funding route as planned providing your market is resilient. Beauhurst pointed out that VCs were the most active investor group in the UK’s private company ecosystem by total number of deals, with 241 rounds announced during the quarter.

On the contrary, those looking at crowdfunding or angel investment may be better to delay funding plans (unless your sector is buoyant), as all other major fund types had reduced or stagnated investment activity in Q4 2023. With deal volume falling by 45% from Q4 2022, crowdfunding saw the biggest decline. Angel investment saw the second largest fall from Q4 2022, at 33% (from 61 to 41 deals).

Lastly, expect valuation to be negotiated

When demand for investment is high but the number of investors is declining, valuations tend to move downwards. Investors will negotiate hard and so founders should be prepared for this. Be ready to evidence your valuation and do benchmarking to make sure you’re in a good position to support valuation discussions.

> *Good luck - and remember fortune favours the*

> *brave!*

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