How to lead a fast-growth scaleup through economic downturn

London has long been described as the fintech capital of the world despite tech major players such as Silicon Valley remaining strong, and South America emerging as a leader.

Temps de lecture : minute

8 November 2023

At the same time, there's a push from the UK government, launched with Rishi Sunak's *opening speech* at London Tech Week, to position the UK as the best place in the world for tech businesses. However, it's important that founders don't let themselves get dazzled by London's reputation. London hasn't been immune to global slumps in VC funding, and the economic crisis continues to impact the tech space broadly. With this in mind, fintech startups and scaleups need to make sure that they have a realistic view of the current market backdrop so they can prime themselves to grow even against adverse conditions.

Fintech capital of the world?

As a founder, establishing London as our base was a no-brainer back in 2015. We had unrivalled access to talent, in one of the most significant business-centric cities in Europe. We also had easy access to the rest of Europe, with the opportunity to reach an addressable market of over 70 million in the UK, as well as an additional 300 million from the broader European market.

Post-Brexit, however, things are different. It's become much harder for regulated businesses – as most finance companies are – to operate in Europe. Companies essentially have to take a single market approach, setting up in Europe once more, and jumping through all regulatory hoops again. Such a resource-intensive approach is less than ideal when trying to survive and grow in an inhospitable economic climate.

London is always going to be appealing. But despite the city's prestige as a finance and tech hub, it isn't untouchable, and this is what founders and C-suites need to remember.

At the moment, London is outperforming other European cities when it comes to VC funding. The city represents *50%* of the total capital raised in Europe in 2023, which is an increase from 45% in 2022. While these figures speak for London as a comparatively robust funding landscape, they can't be taken in isolation. As remote work opportunities continue to widen access to talent and the appeal of Central Europe increases post-Brexit, neighbouring tech hubs have the potential to knock London off of the podium.

The difference between survival and growth during economic downturn

2021 saw a huge spike in valuations, which startups and scaleups capitalised on. Unfortunately, the industry has to experience the opposite as well, and the specific conditions of the current economic crisis have imposed a challenging funding landscape.

From a tech startup perspective, every day is life or death. You have to continually make strides, and fully commit to every step you take. Venture capitalists don't work in this way. Instead, for VCs it's usually a better option to wait and see before making a big move. Generally VCs will be more cautious, taking the stance that missing a good bet is an acceptable loss, but betting on the wrong company isn't. VCs are scrutinising where their capital goes more than ever, and companies in search of funding have felt this pinch. For those that survive and manage to crack a growth trajectory now, the short term challenge will be worth it in the long run as valuations bounce back.

While driving growth is more difficult during economic strife, it's not impossible. For digital fintechs, a big part of this is recognising the challenges that the economy imposes on consumers, and the possible solutions. This is the difference between survival and growth - the ability to respond to changing market conditions by adapting your product along the way.

Where does this leave scale-ups?

These days, a 'growth at all costs' mindset is untenable as most scale-ups are weathering the storm. Throughout the rest of this year, and early next year, growth is going to be slower. B2B and B2C companies are hit by the increased cost of capital, but both are experiencing the downturn differently. B2B companies rely on other businesses having the resources and budget to implement their product or service. As businesses feel the strain, this has knock on effects for the profitability of B2B companies.

International expansion is one of the hardest nuts to crack in these conditions, and there's no simple solution. It all depends on how relevant the products or services you're providing are to your intended market. Founders need to consider not only where the best chance of investment is, but the personnel required, the salary in that part of the world, and ease of entry.

Critical assessment and rigorous derisking are key – one of the biggest mistakes you can make is stumbling into a market just because it's next door, or because everyone else is. Being ill-prepared means it will take longer to make your first revenue, and while funding is more precarious, time is of the essence.

Fundraising: beware of slow nos

Fundraising is the biggest test of tenacity for a founder. Navigating reduced funding opportunity is part of this, and while the economic crisis is exacerbating this decline at the moment, the industry always experiences dips and spikes. It’s something to get comfortable with, and the best way to do this is by understanding how to receive investor feedback. Take all feedback as gold dust, beware of ‘slow nos’, and continue to focus on your product-market fit and your customer base. It may not be hyper growth, but it’s a long game.

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