Winning in tough times
A quick survey among investors

Methodology

At Info Edge Ventures, we conducted a survey in early October 2022 of domestic/global early and growth stage funds which actively invest in Indian startups

39 Partners across 25 investing firms responded to the following three questions:

- *What are the top three pieces of advice you have given to your portfolio companies in this somewhat funding constrained environment?*
- *What are the top three specific action points you would recommend to a young company for better corporate governance?*
- *What is the number of companies in your firm's portfolio that you expect will be profitable three years from now?*

What are the top three pieces of advice you have given to your portfolio companies in this somewhat funding constrained environment?

Highlights (1/2)

- The key goal is to survive. It might get worse before it gets better
- Increase runway somehow, anyhow – cut expenses, focus on revenue, raise funding, downsize
- If you need the money and are getting it, take it without over-negotiating the valuation

Highlights (2/2)

- Focus on the core. Prioritize. Stop doing the non-essential stuff
- Cashflow is more important than EBITDA which is more important than CM1, CM2, CM3. Collections are more important than billing and revenue
- Improve product market fit
- If you have plenty of money, this is the time to put pressure on the competition

Individual Responses (1/23)

- Respondent 1 - Improve unit economics. Plan to live with no new money for 24 months. Look aggressively for consolidation opportunities
- Respondent 2 - Get to "undisputable PMF“. Build "must have", not nice to have products. Accelerate monetization. Do whatever it takes to get to 30 months of runway
- Respondent 3 - Build to demonstrate path to profitability. Sharpen differentiation of offering as well as talent acquisition with respect to competition. Raise capital if required even if it is at lower multiples

Individual Responses (2/23)

- Respondent 4 – Focus on product. Get expenses to a level where you have plenty of runway
- Respondent 5 – Runway. Runway. Runway. Up to founders whether they get it by cutting costs, increasing revenue, raising more capital etc. - choice should be theirs. Sometimes VCs too prescriptive on path vs. objective
- Respondent 6 – First goal is survival. Chase real EBITDA and cash flow. CM1, CM2, CM3 are false metrics. Assess product market fit honestly – if you don't have it get to it

Individual Responses (3/23)

- Respondent 7 – Extend your cash runway to 18 months. If you can’t extend runway, raise at any valuation now. Improve your unit economics
- Respondent 8 – Stay focused on the core of your business without getting distracted by short term ideas. Extend your runway as much as possible by optimising your costs to the most essential ones. Keep your team motivated and aligned by proper communication and regular interactions

Individual Responses (4/23)

- Respondent 9 - Conserve cash. Huge focus on unit economics. Focus on product improvements not marking spends
- Respondent 10 - Focus on unit economics vs growth. Try and have a 24 months runway at the very least. Use the slowdown to build long term capabilities and strengthen customer relationships
- Respondent 11 - Use this time to tighten product-market fit. Focus on customer lock-in and realistic revenue numbers. Product led growth.

Individual Responses (5/23)

- Respondent 12 - Conservative forecasts to assess true cash needs
- Respondent 13 - For cos. still burning money, survive through the funding winter with available cash by cutting burn and focus on unit economics & path to profitability even if it means lower growth. Previous or next round (at worst) should be the last funding round needed for co. to be profitable and continue as sustainable business without external capital infusion. Take money, if available, no matter valuation/down round, to achieve the above. Time to run business on first principles only

Individual Responses (6/23)

- Respondent 14 - Startups were always supposed to be hard, last few years were an aberration, those times aren't likely to come back and valuations shall revert to the mean. If you need to cut back, cut back meaningfully, 5-10% reduction shall not be impactful. It's ok to fail. Better to do an orderly wind down a couple of months before you run out of money. Less painful to all concerned - employees, vendors etc.
- Respondent 15 - Be frugal in the use of capital. Cut your fixed costs, make more variable. Extreme focus on your core objectives

Individual Responses (7/23)

- Respondent 16 - This time it's for real. Don't count on the next fund-raise being round the corner. Runway of 18 months at least needed. If you have the money, this is the time to acquire customers when competitors aren't spending as much. Allocate some bandwidth to always be raisin’
- Respondent 17 - focus on the absolutely essential (product, people, customers, expense). Survival leads to "last man standing". If you have to cut - cut deep and only once.

Individual Responses (8/23)

- Respondent 18 - Ensure you have at least a 12-18 months cash runway. Do an internal round if required to extend the cash runway. Focus on profitability, even at the cost of sacrificing growth in the short-to-medium term. Revisit unit economics and ensure stronger gross margins. Prioritize various projects/investments and consider postponing some of them till completion of the next round of financing

Individual Responses (9/23)

- Respondent 19 - We invest in relatively more mature companies that have a proven business model, the concerns are less about sustainability and more about growth. So the top three pieces of advice are related. What is THE BEST use of capital in hand so as to balance driving growth and long term platform building. Advice around prioritising for the short term - technology, team building, go to market initiatives etc. Advice about thinking right about valuation, managing expectations and how to build the bridge between bid and ask.

Individual Responses (10/23)

- Respondent 20 - Get the basics of the business right - is there oil underneath where you are drilling and can it be drilled profitably? If not, be willing to move to another spot. Successful companies are incredibly focused and do very few things. Are you one of them? If not, be willing to shut down new initiatives and focus on the core. Reduce burn and conserve cash as much as possible

Individual Responses (11/23)

- Respondent 21 - Reprioritise and focus on the core drivers of value in your business. Excesses of last few years have resulted in companies expanding into several adjacencies (multi geo, multi product, multi channel, etc). Times like these are great opportunity to take a step back and assess what’s really value additive v/s a distraction. The best companies generally do 1-2 things really well. Hard reset on valuation multiple expectations for growth rounds. The inflated multiples of last decade’s bull run may never come back or at least won’t be back for a while. Ask yourself objectively where you need to be in terms of scale, growth, profitability to justify your valuation. Cash is king. Maintain a runway of at least 3 years. Thankfully most companies have raised tons of cash in 2021. Make sure it lasts long enough to survive a prolonged funding winter. If cash is available (and you need it anytime over the next 12-24 months), don’t wait for a better valuation. Cut once, take a down round on the chin if you have to, and move on to fight another day.

Individual Responses (12/23)

- Respondent 22 - ***Unit Cost Economics*** is the real lifeline, keep your eye on the ball. Give vanity metrics a break, zone in on core business measures … real growth drivers. Look beyond equity raise, ***leverage Venture Debt*** proactively and continually.
- Respondent 23 - This is the ***best time to build***. Capital and talent is available for good teams executing well. ***Being undercapitalized is good*** - focus on a narrow problem to solve and become best in class in that. ***Become a cockroach***. Burn a fixed amount a month irrespective of growth so that you can survive the funding winter. No longer "grow at any cost". I have seen companies still grow the same as before by making every dollar count.

Individual Responses (13/23)

- Respondent 24 - We raised money when it was available not when we needed. Question every rupee you are burning and look for alternatives. Keep acute focus on what creates value and spend there and not to meaninglessly acquire customers who are not your repeat customers . They have come for a deal.
- Respondent 25 - Play your own game. Founder's actions (not words) will determine the culture for everyone else.

Individual Responses (14/23)

- Respondent 26 - Make sure you adjust your burn to have cash to survive for 18-24 months. Avoid raising cash now but if you need to, do it quickly and don’t worry about valuation. Need to be clear about steady state cash flow margins and ROE of the business and what it takes to get there. Should be clear about what it takes to get there (even if several years away) and make sure you are driving your business along that path. Focus on core priorities; minimize resource allocation on new experiments.
- Respondent 27 - Prioritize cash. Assume you will not be able to raise money soon. Reward great performance with stock instead of cash.

Individual Responses (15/23)

- Respondent 28 - The best time to raise money is when people want to give you money rather than when you need it. So if people are willing to put in more than you need, take it. Funds may not be available later. Don't negotiate too hard, the investor will lose interest. Frugality - relook at all costs and avoid unnecessary expenses. Talk to critical team members and assure them.
- Respondent 29 - Assume capital markets will be closed for 3 years. Need to make sure current cash balance lasts you for well beyond that. Above $50m net revenues, burn can't exist for any reason. Don't expand internationally until home market unit economics are positive.

Individual Responses (16/23)

- Respondent 30 - Focus on core business, cut extra burn and fat… continue to innovate. Move towards profitability with reasonable growth view. This will also pass though. Having a 18-24 months runway may be a good idea.
- Respondent 31 - Rationalise cost and accelerate path to positive EBITDA. Focus spend in a targeted manner, with clear deliverables. If funding runway, post 1 and 2 above is <12 months, raise money at first opportunity - dilution is low priority.

Individual Responses (17/23)

- Respondent 32 - Back to Basics - Keep chipping away. Focus on Cash Flow for survival - not billing, not EBITDA, not revenue, never run out of money. Identify your core and focus on it. Cut the riff raff / continue to invest in core. Spend on GTM / Marketing / Growth only if you have figured out product market fit. Of course this assumes that there is not much money available. On the other hand if the company has money and it’s competition doesn’t - then the advise would be to invest to gain market share. Easier to gain share in a slow market.

Individual Responses (18/23)

- Respondent 33 - Not overly different from normal times (most of our companies are adequately capitalized). Focus on holding or improving unit economics (as per usual). Eliminate wasteful SG&A but just as importantly don’t forget to invest proactively when needed. This is the time to get stronger. If you are nearing 500cr or more in revenue scale, ask yourself why you can’t be profitable.

Individual Responses (19/23)

- Respondent 34 – Don’t give credit to buyers. Collect money in advance. Make your customers your champions - this will reduce CAC. Build long term relationships with downstream investors.
- Respondent 35 – Funding is available for companies with product market fit and a path to profit – so don’t panic just focus on these two things. The message is not the same for every start up. Reset valuation expectations. Expect 30 to 50 percent lower than what you thought. If you think you need money in 18 months – don’t wait. Raise now. Prioritise the right investor over a higher valuation.

Individual Responses (20/23)

- Respondent 36 – Capital reality check - If you've raised (a lot of) money, build as if you'll never raise again. If you don't have money, see if your insiders have capacity and belief to buy you 18-24 months of bare minimal runway. If neither, see if you can build to profitability or be forced to find a good home

  Be brave but also transparent with investors and team in your own way. Will customer love and revenue allow you to build sustainably? - best time to test this is now

Individual Responses (21/23)

- Respondent 37 – Focus on getting unit economics in place — getting to operational breakeven & ensure having 24 months of runway. Ensure constant communication with top leadership and high performers. Holding onto talent is critical. Be more open to new avenues for growth (including inorganic), which might not have existed previously + be ruthless about cutting down areas of business which are not making sense.

Individual Responses (22/23)

- Respondent 38 - No credit to distributors/trade channels. Get customer love not just by selling them your products but by making them your biggest champions. If your customer recommends your products to their friends and family your CAC and LTV is super optimised. Build long term relationships with downstream investors. Even in a tough market, a long term relationship with investors will lead to getting capital infoedge ventures

Individual Responses (23/23)

- Respondent 39 - Ensure focus on creating long term sustainable differentiation. Keep conversations going with investors (both current and prospective). Manage runway

What are the top three specific action points you would recommend to a young company for better corporate governance?

Highlights (1/2)

- Corporate governance is first about the founder’s intent
- Surround yourself with people of integrity – board, auditors, internal auditors, advisors, investors. Remember they are there to save you from yourself
- Listen very hard if anyone is uncomfortable or raises a red flag
- Commit yourself to transparency and disclosure - tell the truth

Highlights (2/2)

- Create situations of convergence of interest and not conflict of interest
- Founders have to be willing to submit themselves to the judgement of others at times in matters of governance
- An independent and strong CFO is central to good governance
- Ensure that your revenue recognition policy and other accounting policies pass the test of being true and fair
- And then do all the other things – compliance, board meetings, audits, MIS etc.

Individual Responses (1/32)

Respondent 1

- Document roles and responsibilities between the management team, clearly ensuring that there are checks and balances
- Appoint an internal auditor of repute and their scope to be finalised by the Board after due deliberation. Have a third party audit of compliances, including all contractual compliances
- Formalise systems and processes including Board processes

Individual Responses (2/32)

Respondent 2

- Define key business metrics and maintain a regular MIS, monthly review meetings with key investors, hire a strong finance head/controller

Individual Responses (3/32)

Respondent 3

- Make sure the numbers are real and build a good MIS (e.g. revenue is net revenue not GMV, not TPV not gross revenue)
- Get a strong finance leader after you raise Series A
- Avoid related party transactions
- If in commerce do an internal audit every 6 months after Series A
- Have a whistleblower process

Individual Responses (4/32)

Respondent 4

- Internal audit function - Big 6 with scope agreed with investors
- Audit committee with CFO reporting and presenting to it without the CEO
- Investor reporting function early that caters to investors needs and timing

Individual Responses (5/32)

Respondent 5

- Independent CFO with an Independent audit chair
- Build a Board who has directors with an independent mind and have genuine interest in the company. They are not there for their ego needs
- High compliance culture. The compliance officer should have space and respect in the company

Individual Responses (6/32)

Respondent 6

- Adopt listed company corporate governance standards
- Institute an audit committee
- Create an Ethics and governance committee

Individual Responses (7/32)

Respondent 7

- Be transparent, avoid negative surprises
- Encourage a culture of Constructive Confrontation and Disagree but Commit
- It’s the board’s/investors’ job to know and set business KPIs that matter and need to be monitored to understand health of the business

Individual Responses (8/32)

Respondent 8

- It’s as important for early stage as is for later/pre-IPO - being a startup is not an excuse
- Agree with stakeholders to focus on metrics and monitoring that matters
- Keep documentation minimal but essential

Individual Responses (9/32)

Respondent 9

- Create an advisory board in addition to the statutory board. Meet this board quarterly just like the standard board meetings
- Create conflict policies upfront and get these vetted by independent agencies
- Commit to yourself that you will honour all statutory requirements periodically through a proper internal team that only focuses on Compliances

Individual Responses (10/32)

Respondent 10

- Corporate governance is hygiene and needs to be embedded in the organisation, founders have to set the standards
- Bias for action
- Ensure transparency

Individual Responses (11/32)

Respondent 11

- Hyper transparency - make sure your board and other key constituents have direct access (updated monthly at the very least) to all the key info they need on your firm
- Do not run multiple companies. Have all your ideas / energy channeled into one company
- Make sure that bad news / business concerns are discussed very openly. Better to discuss problems as soon as they are visible - waiting only hurts

Individual Responses (12/32)

Respondent 12

- Please keep your board informed on all key matters and don’t be afraid of them
- Manage team below you and get them to understand the ethical ways of doing business
- Have good auditors - internal and external

Individual Responses (13/32)

Respondent 13

- Have external directors with industry expertise
- Have time for board excluding founders to meet and debate
- Have an independent chair

Individual Responses (14/32)

Respondent 14

- Facilitate and encourage interaction between board members and C-1 management
- Have a whistleblower policy
- Have an audit committee where the chair has direct access to company auditors

Individual Responses (15/32)

Respondent 15

- Get a good qualified CFO and let them operate with independence
- Do regular monthly reporting of financials and review call with investors without any creative accounting and lingo
- Any related party transactions should be disclosed and taken approval for before the event

Individual Responses (16/32)

Respondent 16

- Strong board
- Quarterly board meetings
- Annual audits by big 4 post series A funding

Individual Responses (17/32)

Respondent 17

- Difficult question. Generally speaking, we would not invest if we are not sure about the integrity of the founding team. If that is in place, then it doesn't really matter what other actions they take - mostly just optics
- That said, we would ask for: 1. Separate internal audit 2. Reputed independent directors on the board 3. Professional board appointed CFO

Individual Responses (18/32)

Respondent 18

- Hire a full time finance professional depending on capital raised - before seed round hire an accountant, before Series A hire a CA/ VP Finance, before Series B hire a CFO. They will help close the deal quickly
- Get a good independent auditor - not a friendly one
- Create a zero tolerance culture of graft / integrity and lead from the front.

Individual Responses (19/32)

Respondent 19

- Board must have strong independents, preferably with background in the underlying business. Have the independents chair key board committees like RemCo and Audit
- Strong board member with risk, compliance background
- Avoid surprises to Board and shareholders - frequent discussions if needed

Individual Responses (20/32)

Respondent 20

- Get a senior finance person asap
- Regular board meetings come what may (if no investors, appoint proxy board members and give them equity to motivate them)
- Regular MIS reports

Individual Responses (21/32)

Respondent 21

- Make governance part of the active culture, not a tick in the box. It will not only save your ass but will truly enhance the value you are building in the firm!
- Form a board with varied and experienced members, those you trust to share transparently and those who would give you honest and upright advice no matter what … not an echo chamber
- Expand the scope of governance beyond statutory and financials to include people practices, IP, and culture of transparency and fairness. It’s an all across approach

Individual Responses (22/32)

Respondent 22

- For a young company - Hire an experienced Finance Controller. Ideally someone with CA + MBA background and with 5-7 years of FC experience at a quality company
- Setup an internal audit function - and get Big 4-6 to run it. Statutory audits don't go to the depth needed to uncover serious issues. Some times even founders aren't aware of lapses as companies scale. Scope of internal audit should be defined by Board and results should be presented directly by auditor to the Board
- Setup a monthly MIS dashboard that has all details including cash, burn, runway, GM, cohorts, etc and share with senior members + investors. Build a culture of transparency from early days

Individual Responses (23/32)

Respondent 23

- Empathy - think about what your investors would want you to do and do that
- Honesty/integrity - report everything accurately - both good and bad
- Be you - there is no right or wrong way to organize meetings in terms of frequency, content, size of board - and generally keeping it simple is best

Individual Responses (24/32)

Respondent 24

- Baki di galan chaddo - dil saaf hona chahiye. Be honest and truthful with your employees, partners, investors and customers.
- Build a culture of honesty and integrity inside the company - reward the right behaviour / penalise the wrong ones. Lead by example. Don’t get carried away / discourage short cuts.
- Keep the right company- surround yourself with the right people - advisors / board - people who have a reputation for good governance. Don’t associate with the wrong people.

Individual Responses (25/32)

Respondent 25

- Practice transparency on a daily basis both internally and externally
- Measure and share numbers with your board and investors monthly
- Don’t set yourself up by selling fake stories and unviable milestones to investors

Individual Responses (26/32)

Respondent 26

- Build a robust and competent finance and reporting function with individuals who are focused on compliance and governance
- Never too early to start with governance. It is a myth that good boards are only for large companies. Get strong boards who ask the right questions, push the thinking on operational scaling and help to build internal and external capability
- No short cuts on revenue recognition, RPT, reporting and compliance, particularly as you scale

Individual Responses (27/32)

Respondent 27

- Hire a good CFO/VP Finance from a company which has strong governance norms
- No related party transactions
- Minimize family members in the company

Individual Responses (28/32)

Respondent 28

- Form a board and over communicate with your investors and board.
- Don’t be afraid of bringing bad news early. If in doubt, always bring up a point. Don’t try and deal with it yourself or scuttle it

Individual Responses (29/32)

Respondent 29

- However small the org and the team, know that you will build an internal audit process (it’s never too early) and let them know it’s inevitable
- Come up with 3-5 first principles benchmarks on what constitute good governance measures that are universal across the firm and test them with each of your leadership in honest one on one chats
- Revisit the docs you sign with investors and see what clauses create conflicts between founder, investor and company interests if one is truly trying to build a lasting org / brand. All other outcomes are relegated anyhow to the footnotes of startup history. Be honest about whether one is building a company that outlasts the founders or not. Docs can’t be changed but attitudes on how to govern and build can.

Individual Responses (30/32)

Respondent 30

- Run the board meetings like a true company and include a company secretary in the meetings. Follow the procedures and you will at least ensure that the right questions are asked.
- Hire a CFO or a senior finance controller and empower them to ask the right questions.
- Allocate adequate time at board meetings for discussion on the challenges involved in achieving the targets. Rules often get broken when entrepreneurs don’t feel like they can ask questions or get advice.

Individual Responses (31/32)

Respondent 31

- Over share with your investors
- Hire a high quality audit firm
- Run a proper board
- Hire a strong, senior finance officer

Individual Responses (32/32)

Respondent 32

- Top notch CFO
- Good quality internal auditor to take things seriously
- Be open and don't be defensive. Internal controls are more important for the founder than the investor

What is the number of companies in your firm's portfolio that you expect will be profitable three years from now?

What is the number of companies in your firm's portfolio that you expect will be profitable three years from now?

- Responses received from 20 firms
- Expected aggregate number of profitable companies (without adjusting for common investments) – 435
- If we adjust the estimated number of profitable companies by 50% for co-investments, there will be 218 unique profitable companies in the portfolio of just these 20 VC firms
- If we adjust another 50% for over estimation, there will be 109 profitable companies in the portfolio of these 20 VC firms three years from now

Thanks

For any queries, please feel free to reach out to us at connect@infoedgeventures.com