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How to Fundraise & Operate During a Pandemic

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13-16 minutes

On Tuesday, April 28th, Soma Capital hosted 2 virtual panels with 11 other investors to share advice and answer questions around startup fundraising and operations during COVID-19. One panel covered enterprise, and the other, consumer, but the insights shared in each were broadly applicable to startups across industries. Here are the key takeaways.

Special thanks to the investors who participated: Nandu Anilal at Canaan, Caitlin Bolnick at OpenView, Grace Isford at Canvas Ventures, Susan Liu at Scale Venture Partners, and Wil Chockley at Bain Capital Ventures on the enterprise panel & Jerry Lu at Advancit Capital, Michelle Kwon at M13, Andrew Wang at Grishin Robotics, Meera Clark at Obvious, Maitree Mervana at Acrew Capital, and Caty Rea at Highland Capital Partners on the consumer panel. *And a special shoutout* to Asher Noel at Harvard for the incredible notes on panels!

Consumer Panel

Enterprise Panel

We answered questions around deciding whether to fundraise, identifying investors, building investor relationships, and pitching and closing deals virtually.

How to decide whether to fundraise

Aim for 12–18 months of runway. Given the unprecedented environment, we all have very little idea on how long the economic and public health headwinds will last. Err on the side of caution and look into fundraising particularly if you have less than a year's worth of runway.

While 12–18 months is a general guideline, you may adapt your target runway based on your user engagement and sales cycles, adjusting for the expected impacts of broader trends. In general, when in doubt, it is advisable to fundraise, if you can as it is better to have more capital than less given the uncertainty ahead. As a benchmark, looking at comparisons to 2001 and 2008, we saw depressed private markets for 2 to 4 years with 20 to 30% discounts in valuations.

Consider waiting a couple months to better understand the new world order. If you are financially secure for the next few quarters, you may want to take time to adapt your fundraising pitch to capitalize on the emerging trends and better position your company to potential investors.

How to identify and get in touch with investors

First target investors you have existing relationships with. Start with investors you have met before COVID-19. Perhaps you met with an investor for coffee or even chatted briefly at a conference or happy hour, but the time was not right before. These investors are relatively more likely to engage given there has already been an in-person point of contact.

Write a thoughtful and engaging email highlighting business growth, opportunity, and adaptation to COVID-19. Instead of a simple "just checking in" email, craft a concise but informative email sharing impressive growth metrics since you last met, strategic pivots, and how you see your business positioned well to weather or even grow further during COVID-19.

For investors you have not met, try to get a warm intro, especially from someone who can speak to your character and ability. Instead of finding just any mutual LinkedIn connection, look for people who know you and your team well and can speak to your differentiated strengths and potential as leaders. Added votes of confidence from the person warm introducing your team can go a long way, especially as investors you have not met try to get comfortable around investing.

Try to get warm intros from other founders. Investors generally always take warm intros from their own portfolio so find ways to connect with other founders who you know well and who can vouch for you to their own cap table.

Make it as easy as possible for people to provide warm introductions. Include an overview that they can easily share with your investor(s) of interest, including highlights of your business, opportunity, traction, and team as well as a thoughtful level of personalization on why the investor in question is a particular fit (name past investments that show their fund's alignment with your work, for example).

Here is more on asking for warm introductions from Mike Ghaffary at Canvas Ventures.

Target more junior people when cold emailing. Junior team members at venture capital funds are generally more receptive to cold emails. Even though they may not have the ultimate check writing ability, if they feel strongly about your business, they can be instrumental internal advocates on your behalf.

Personalize each message. People are generally much more responsive to personalized emails showing you took the time to get to know them and their firm and why they may be especially aligned with your work. Take the time to add a few lines of personalization and try not to use mail merge (or at least try not to make it obvious you did).

How to engage with investors

Be upfront with venture investors. Some funds are not investing in the current climate, so it is important to ask and know upfront whether a particular fund is still writing checks.

Let investors quickly better understand your product. For consumer companies, ship some samples. For enterprise companies, make a short demo video and share that with investors when starting conversations.

Figure out where the investor hesitations are. If an investor initially passes on your pitch, ask them what they would need to see or know to get comfortable with investing. Perhaps they are looking for certain traction levels or the addition of particular team members. Then, ask if you can add them to your investor update newsletter (investors will usually say yes as this is a common practice and a very low friction ask). In this way, you can keep the relationship warm and thoughtfully show them how you have incorporated their feedback.

One common mistake in presentations is not showing where the exit has been or can be. Paint a clear picture on your ultimate opportunity.

When investors ask how they can help, take them up on it. Specifically, ask for intros to other funds, their perspective on other funds and ones that may be a particular fit, insight around benchmarking and key metrics to aim for, feedback on your pitch and deck, and feedback on your product.

Expect longer deal processes and more reference checks. In general, there has been a flight to quality even in the private markets. Investors are focusing more on what they know and their core circles of competency and have higher bars both in founder and business quality when making investment decisions. To help investors get comfortable around you and your team, offer to provide multiple reference checks.

Be transparent on the bear and base case of how COVID may impact your business. Investors would prefer honesty and openness around your expectations over a too sunny, unrealistic picture.

How to structure your round

Look at public comps to better understand what expectations you can have around valuations, particularly for more later stage deals. Ultimately, the valuation you receive is a reflection of demand and supply. In general, in the current environment, there is more demand for capital than supply, so try to optimize more for speed in closing your round and getting your capital infusion than valuation.

Identify how much capital you need and back into how much you need to raise. The name (i.e. seed vs. Series A etc.) given to any particular round does not carry much weight in conversations with investors. They more so look at what you are raising at what valuation, so focus most on defining these variables based on your needs.

We answered questions around conserving cash, reducing expenses, non-venture financing routes, effective leadership, and keeping team morale high during COVID-19.

How to conserve cash and reduce expenses

Identify your variable and fixed costs. For variable costs, like rent or supplier contracts, find ways to split costs, renegotiate, or pay on the back end.

Offer equity compensation in partial place of salaries and bonuses. In doing so, you can reduce cash while boosting team morale and creating greater internal incentive alignment.

Cut early and often. Push out accounts payable and pull in receivables. Do a deep and thorough dive into your existing cost structures to identify areas of opportunity. Reallocate costs (away from marketing, for example). Do scenario planning to understand what are the likely or possible outcomes given what is outside of your control (the macroeconomic factors) and what is in your control.

Budget for a more difficult Q2 and build a recession proof business. While there are rumors around gradual reopenings and the temporary end of quarantine, even in the most optimistic public health scenarios, the country and the majority of industries are facing repercussions from Q1, which may lead to a recession later this year. Make sure you incorporate the potential of a further downturn to build in enough margin for the rest of 2020.

Read more on the Burn Multiple from David Sachs at Craft Ventures here.

Pull down your debt line if you have one. Keep on gradually increasing how long you can go without fundraising. Venture capitalists understand that this is an incredibly challenging time outside of the control of founders and will generally not look negatively on startups taking on debt, utilizing the PPP (if they need it), and exploring alternative means of financing.

Renegotiate your lease. In general, renters have the power over landlords in the current real estate market. Many startups in the portfolios of investors present had found success in renegotiating their lease and were thereby able to substantially reduce their monthly burn.

Go back to basics. The fundamentals of strong businesses have not changed, so continue focusing on the recurring services layer and unit economics and driving progress along these key metrics and dimensions. Consumer and user demand is still there but has just shifted from offline to online. Identify, target, and meet this demand in digital first ways.

How to lead effectively

Be as transparent as you can about what you know. Too often leaders feel they need to put on a strong face, but this inadvertently leads to greater employee second guessing because they are unsure what is a true strength and what is just a strong front.

Similarly, when doing layoffs, share detailed information with employees (both those leaving and staying) on what to expect so they do not feel they are in the dark.

Over Communicate: have more frequent all hands meetings. Err on the side of too many meetings or check ins. Make sure employees feel comfortable and have a platform to share how they are feeling, both professionally and personally. Actively check in with employees to see how they are doing in both work and life and help them feel heard and understood.

Be flexible for employees. Employees may be dealing with children at home, sick relatives, challenges in adjusting to remote work, and general angst. Be understanding and accommodating and empower employees to do their best work in the existing constraints.

Set an example for work life balance and separation. With remote work, the line between work and life is growing increasingly thin. Employees feel they need to constantly be online and available. As a leader, set an example by respecting work life separation for yourself and for others.

How to find business opportunities in the COVID world

Take the opportunity to educate users on your product. Explore product led growth motions by providing free trials and generally creating low friction sign up experiences.

As an example, Zoom has taken off rapidly in our online only environment, even much more so than Slack. Zoom has a low friction onboarding process (you only need to click a link!) relative to Slack (which requires setting up channels, inviting the whole team, etc.), which led to the greater relative growth of Zoom. Think about ways to emulate this low friction onboarding in your own products.

Plan for both COVID-19 and post COVID-19. Too often companies focus solely on adapting their products and strategies to COVID-19, but it is important to both 1) plan to survive through COVID-19 and 2) still have a broadly relevant core product that will retain its functionality and viability after the pandemic.

Focus on retention and understand where you fall in the need to have vs. nice to have spectrum. Most businesses, including your customers, are ranking their software vendors from most to least necessary to better be able to cut their own expenses wherever possible. Understand where you fit in this list and adapt your messaging, product, and service to move closer to the priority end of the spectrum.

The same can be said for consumer products as well as individuals are cutting their personal spends and focusing on need to have. Aim to really understand how your consumers' psychology has shifted and how you can adapt accordingly.

Take advantage of reduced customer acquisition costs, cheaper talent, and falling rents. While there are numerous headwinds in the current environment, there are also opportunities in lowered expenses. Reevaluate investment initiatives accordingly and allocate effectively to access resources for lower costs while still driving growth in your business.

In the consumer space, investors see opportunities in a few key categories: communities, video, mobile, live streaming, audio content, and child care. With the additional time we have working from home, new challenges and corresponding opportunities have emerged for entertainment consumption and digitally immersive experiences.

In the enterprise space, investors see opportunities in a few key areas: remote work tools, anti-fraud tools for commerce, and logistics.