

The Impact of COVID-19 on Global Startup Ecosystems: Global Startup Survey

Second Installment of Series

April, 2020

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Acknowledgments

The authors are grateful to the founders all over the world working to get through the COVID-19 crisis, and all the ecosystems working hard to support them. We are also incredibly grateful to the whole Startup Genome team who made this work possible, especially Marc Penzel, Stephan Kuester, Tricia Whitlock, Lais de Oliveira, Michal Rozynek, Adam Bregu, Patricia Russ, Pavan Kumar, Utkarsh Jain, Poorva Mendiratta and Shekhar Singh Parihar — who together make up Startup Genome's COVID-19 Taskforce. We also thank Dan Herman, Josh Lerner, and Bjoern Lasse Herrmann, who provided invaluable feedback.

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Executive Summary

To better understand the impact of the COVID-19 crisis on startups globally, and equip governments with tools and actionable insights to support their innovation ecosystems, Startup Genome launched the world's first global startup survey on the topic. This continues our broader initiatives about the impact of COVID-19 on global startup ecosystems, like [Global Policy Knowledge Base](#) and our ongoing [Research Series](#).

Key findings from this global survey analysis are:

Capital

- 41% of startups globally are threatened in what we call “red zone”: they have three months or less of cash runway left. Many very young startups live with only a few months in cash—29% were in that situation already before the crisis—but the crisis put 40% more of them in that precarious position. Focusing on startups that have raised Series A, B, or later rounds, 34% have less than 6 months worth of cash — a danger zone in the current situation where fundraising is difficult.
- Of startups that had a term sheet before the onset of the crisis, nearly 20% have had the term sheet pulled by the investor, and 53% have seen the process slow down significantly or have faced an unresponsive lead investor. Only 28% have either had the process continue normally or secured the funds.

Talent and Jobs

- Since the beginning of the crisis 74% of startups have had to terminate full-time employees. 39% of all startups had to lay off 20% or more of their staff, and 26% had to let go 60% of employees or more. When we break down the share of startups that had to terminate full-time employees by the top three continents for startup activity, North America is the place with the biggest share of companies reducing headcount (84%), followed by Europe (67%) and Asia (59%).

Market

- 74% of startups saw their revenues decline since the beginning of the crisis. The most common type of change in revenue is a relatively modest decline. However, a sizable share of companies were very heavily hit: 16% of startups saw their revenue drop by more than 80%. A major reason for the drops in revenue come from the effect of the crisis on industries those startups serve. Three out of every four startups work in industries severely affected by the COVID-19 crisis.



- At the same time, a small minority of companies are actually experiencing growth. 12% of startups have seen their revenue increase by 10 percent or more since the beginning of the crisis, and one out of every 10 startups are in industries actually experiencing growth. Every crisis creates opportunities. For instance, over half of Fortune 500 companies started during a contraction, and over 50 unicorns were created in the Great Recession alone, as Startup Genome data shows. The COVID-19 crisis is no exception.
- The hurt and the growth are not evenly distributed. On the positive side, B2C startups are about three times more likely to be in industries experiencing growth in the face of the COVID-19 crisis when compared to B2B startups. On the negative side, B2B startups serving Large Enterprise clients are more likely to be in industries adversely affected by the crisis than both B2B startups serving Small and Medium Enterprises and B2C startups; and are the least likely to be experiencing an increase in sales.

Operations and Management

- Over two thirds of startups have reduced their expenses since December 2019, with the lion's share of those doing relatively small cuts. Some companies, however, cut costs very aggressively, with more than one out of every 10 companies cutting costs by over 60%. Out of those startups cutting costs, 76% started doing it since the beginning of March—indicating most of the cost-cutting is directly related to the COVID-19 crisis.
- Nonetheless, tech startups are uniquely situated to continue operating even in lockdown scenarios. Unlike many traditional businesses, 96% of startups responded that they have continued working during the crisis, even if there is significant disruption.

Policy

- 38% of startups have not received assistance and do not expect to be helped by policy relief measures related to the crisis. At the same time, 16% are not currently supported but expect to be helped by a policy measure soon. The remaining 46% of startups are currently receiving assistance.
- According to founders and startup executives, the top four most helpful policy responses for their businesses would be, in order: #1 Grants to preserve company liquidity (29%); #2 Instruments to boost investment (18%); #3 Support to protect employees, like payroll supplementation grants (17%); and #4 Loans to preserve company liquidity (12%).

In the coming weeks and months Startup Genome will continue publishing insights on the impact of the coronavirus crisis on startups, and building tools for governments and ecosystems to support their startups through the crisis. You can sign up [here to get it](#).



If you are a policymaker or ecosystem support organization and would like to deploy the COVID-19 Impact Global Startup Survey in your community and get detailed insights about what is happening on the ground (and how your ecosystem stack up with what is happening globally), please reach out to Adam Bregu (adam@startupgenome.com).

1070 respondents answered the survey, across every continent and in over 50 countries. If you are a startup and want to take the survey to share what is happening in your business and market, you can take it [here](#). Your input is crucial.



About Startup Genome

Startup Genome works to enhance startup success and ecosystem performance everywhere.

Our mission and impact are rooted in over a decade of independent research with data on over a million companies across 150 cities. Working side-by-side with more than 300 partner organizations, our frameworks and methodologies have become instrumental in building foundations for startups to grow. Our efforts earned us the Research Champions award at the Global Entrepreneurship Congress 2019.

Many of the world's leading governments and innovation-focused organizations have joined our knowledge network to cut through the complexities of the startup ecosystem development and to fuel sustained economic growth. Considering the new science of the startup ecosystem assessment, we point to key gaps in startup ecosystems and prioritize actions to address them. Together with global thought leaders, we define robust strategies and implement programs to drive lasting change.

Join us and boost startup success, economic growth, and job creation in your region. Follow our work at startupgenome.com or find us at [Facebook](#), [Twitter](#), and [LinkedIn](#).

In this report, we continue [Startup Genome's COVID-19 Series](#), and build upon (analyzing with more data collected) the preliminary results we shared in the past on our website.

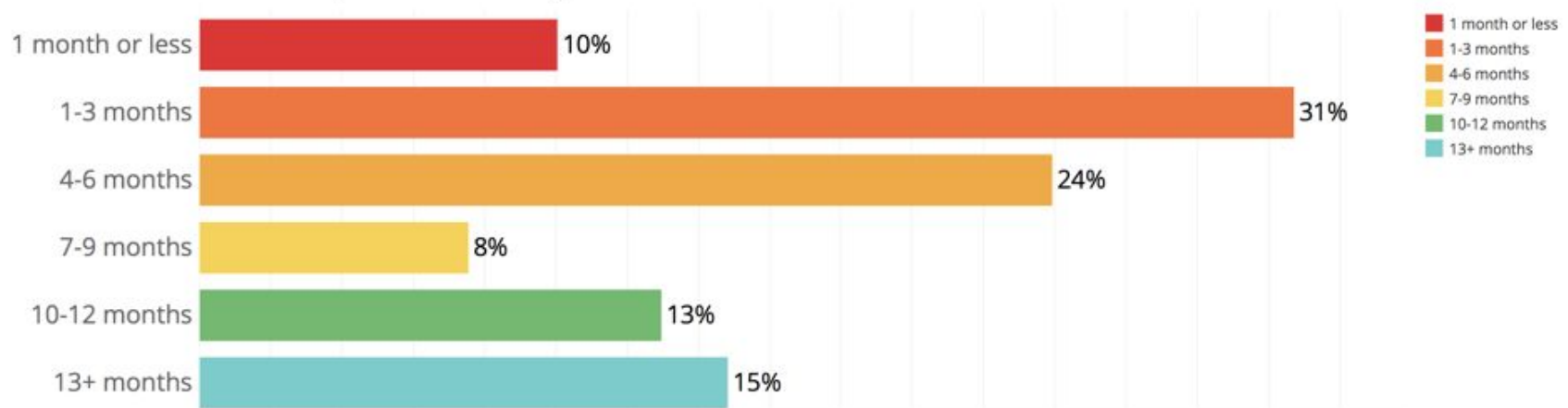


1) Capital

As we have written at Startup Genome, startups are now facing difficulties accessing capital. The Chinese ecosystems were hit first, with funding declining by over [50% in the first two months of the COVID-19 crisis](#). Then they were followed by Asian ecosystems, and then by most of the world.

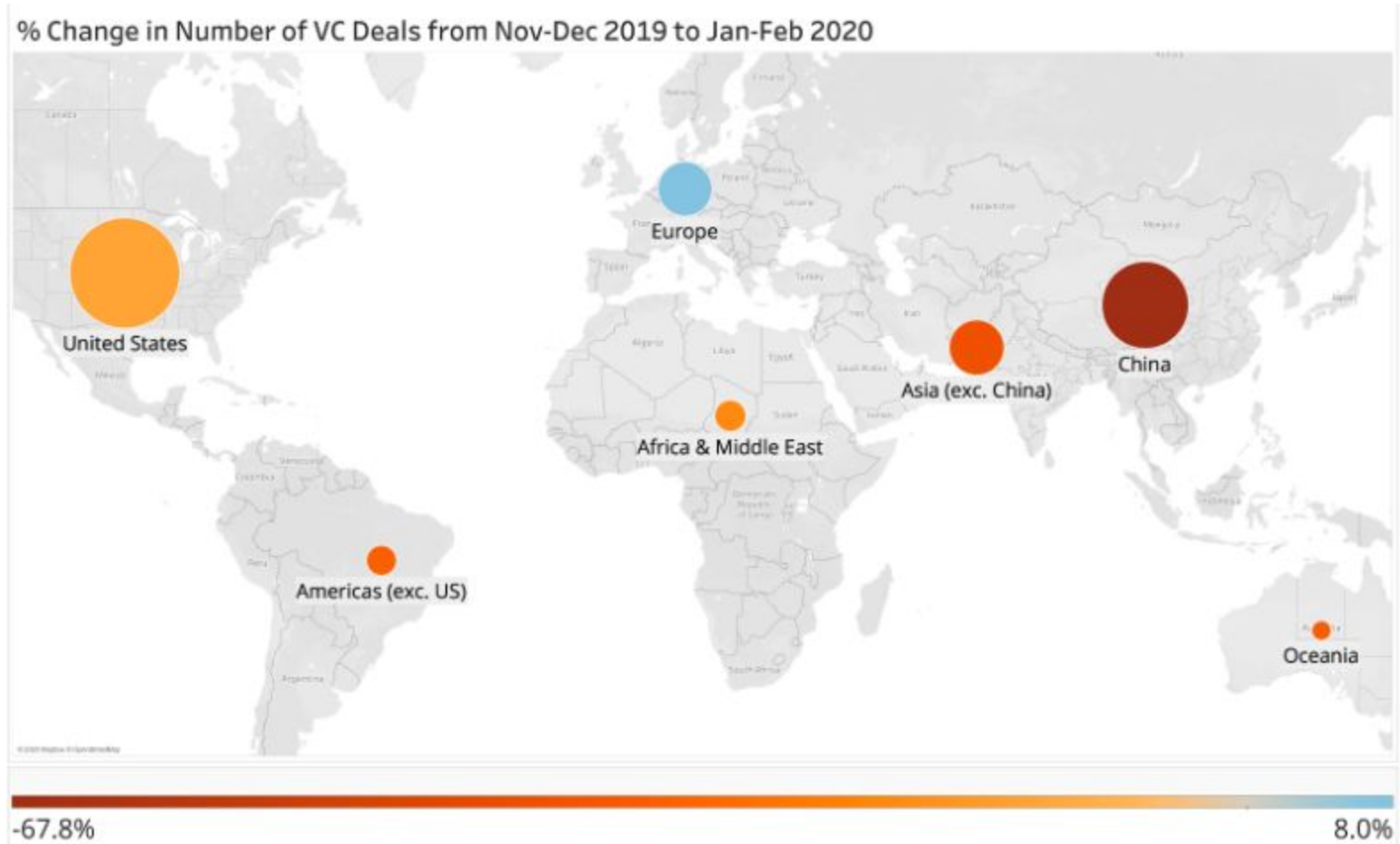
An astounding **41%** of startups are in what we call “red zone,” with three months or less of cash runway left. This means that **four out of every 10 startups will die in the next three months if they do not raise additional capital** and their revenue and expenses remain unchanged. The number of companies in the red zone is up by over 40% since December 2019.

Months of Runway as of Today



Source: Startup Genome | www.startupgenome.com

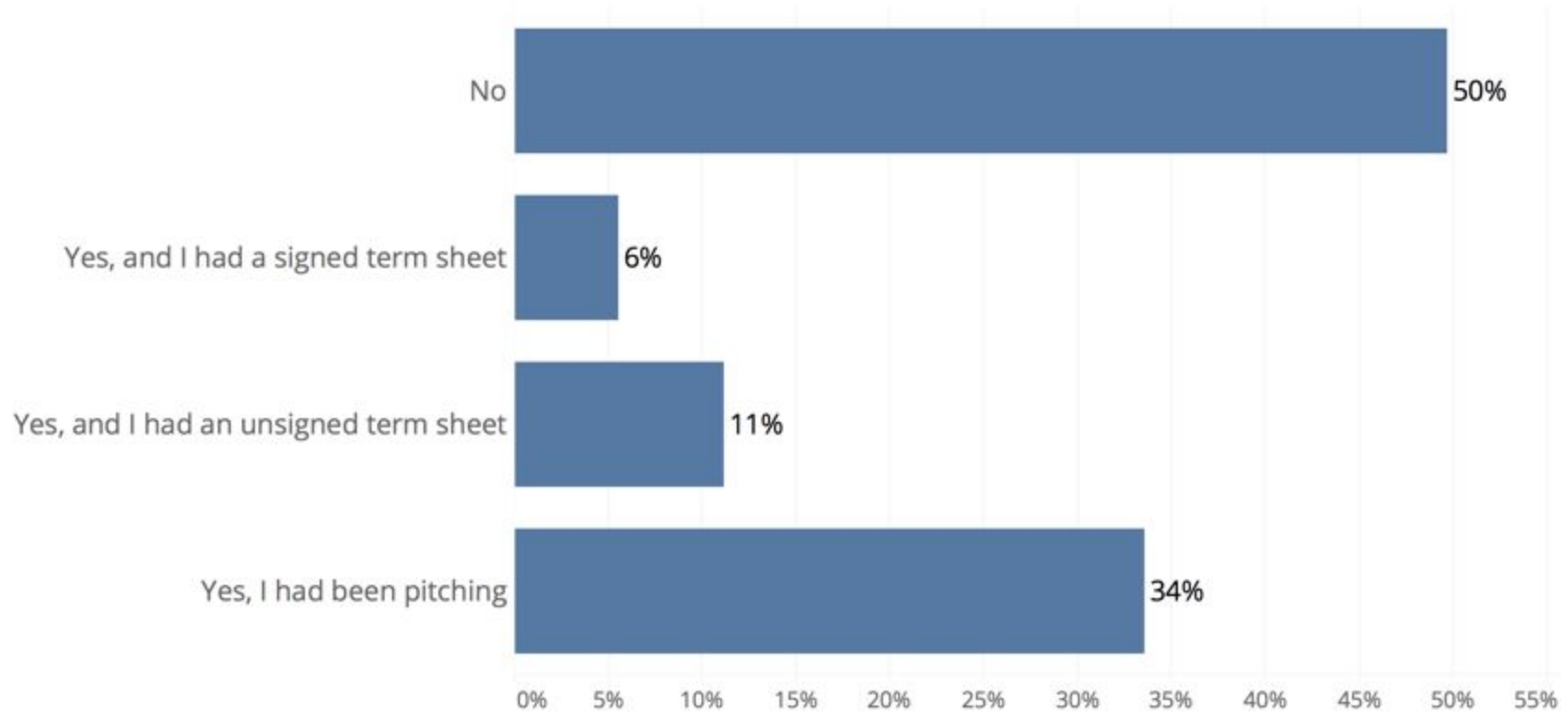
The situation is less dire for companies that have raised Series A, or B+ deals in the past. More than a third, or 34% of them, have less than 6 months worth of cash — a danger zone in the current situation where fundraising is difficult.





In addition to risking future financing prospects for startups, the crisis is also derailing ongoing fundraising. Half of startups were trying to raise money pre-crisis. Of those, most had only been pitching, but 17% had a term sheet from investors.

Share of Startups Trying to Raise Funds Pre-Crisis



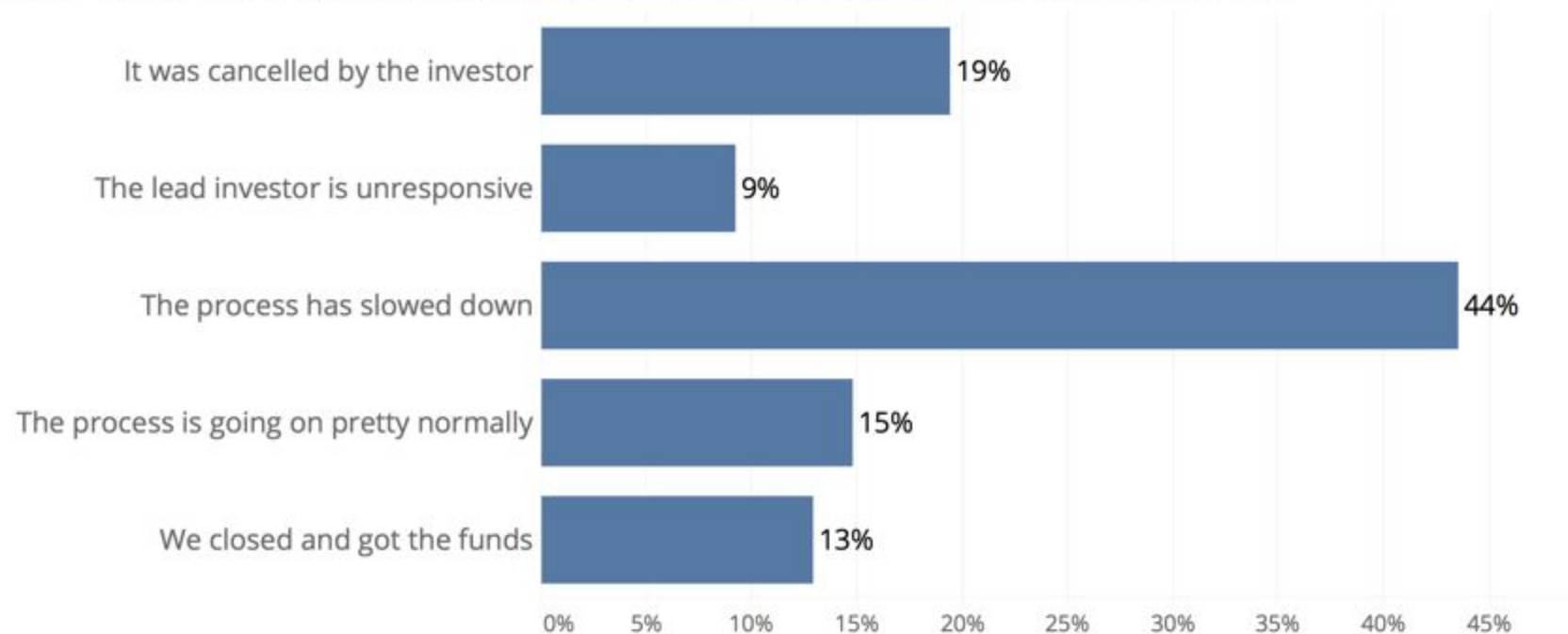
Source: Startup Genome | www.startupgenome.com



For those with term sheets, just over **one out of four have continued to have a normal fundraising process**, either getting the funds or with the process going on as expected. The remaining companies have had their fundraising derailed, with **19%** of those who had term sheets noting investors had canceled their rounds.

Term Sheets Derailed

Status of Fundraising for Startups with Term Sheets, Signed or Unsigned, Pre-Crisis



Source: Startup Genome | www.startupgenome.com



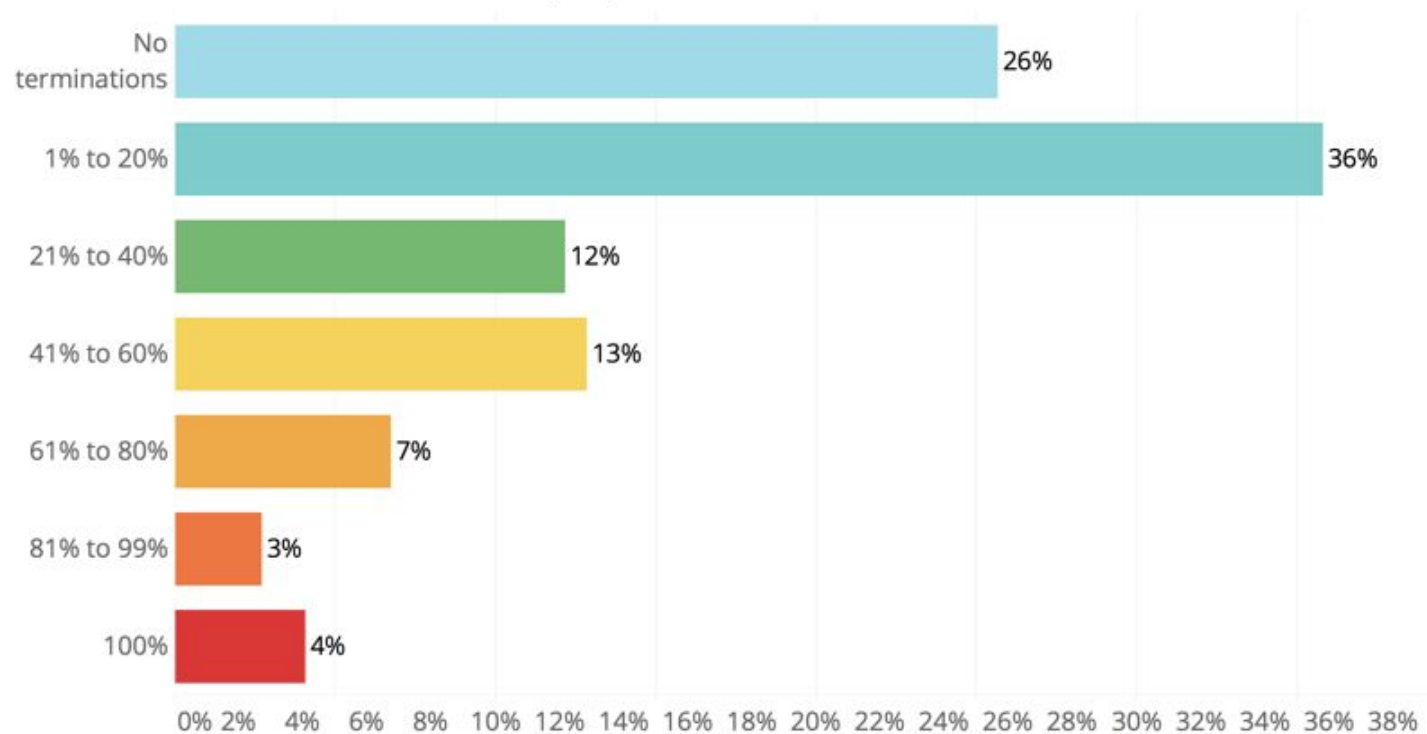
2) Talent and Jobs

The number of unemployment claims continues to mount around the world. In the U.S. alone [22 million people lost their jobs](#) during the first four weeks of extended lockdowns and shelter-in-place orders. These four weeks have the sad distinction of both destroying more jobs than the 18-month-long Great Recession (2007-2009) and wiping away the 21.5 million jobs created in the economic recovery in the U.S. since then. While some of these workers might find new jobs and ultimately not add to the total toll of unemployed long-term, the economic prospects are frightening.

Startups, unfortunately, have had to make difficult decisions regarding their teams. For companies with full-time staff, **74% have had to let go full-time employees**. Most of the cuts so far have been relatively small—about half of the companies reducing their workforce have laid off 20% or less of their staff. But it is reasonable to expect more cuts in the future.



Termination of Full-Time Employees



Source: Startup Genome | www.startupgenome.com

When we break down that share by the top three continents for startup activity, North America is the place where most startups have had to lay off employees (**84%**), followed by Europe (**67%**) and Asia (**59%**).

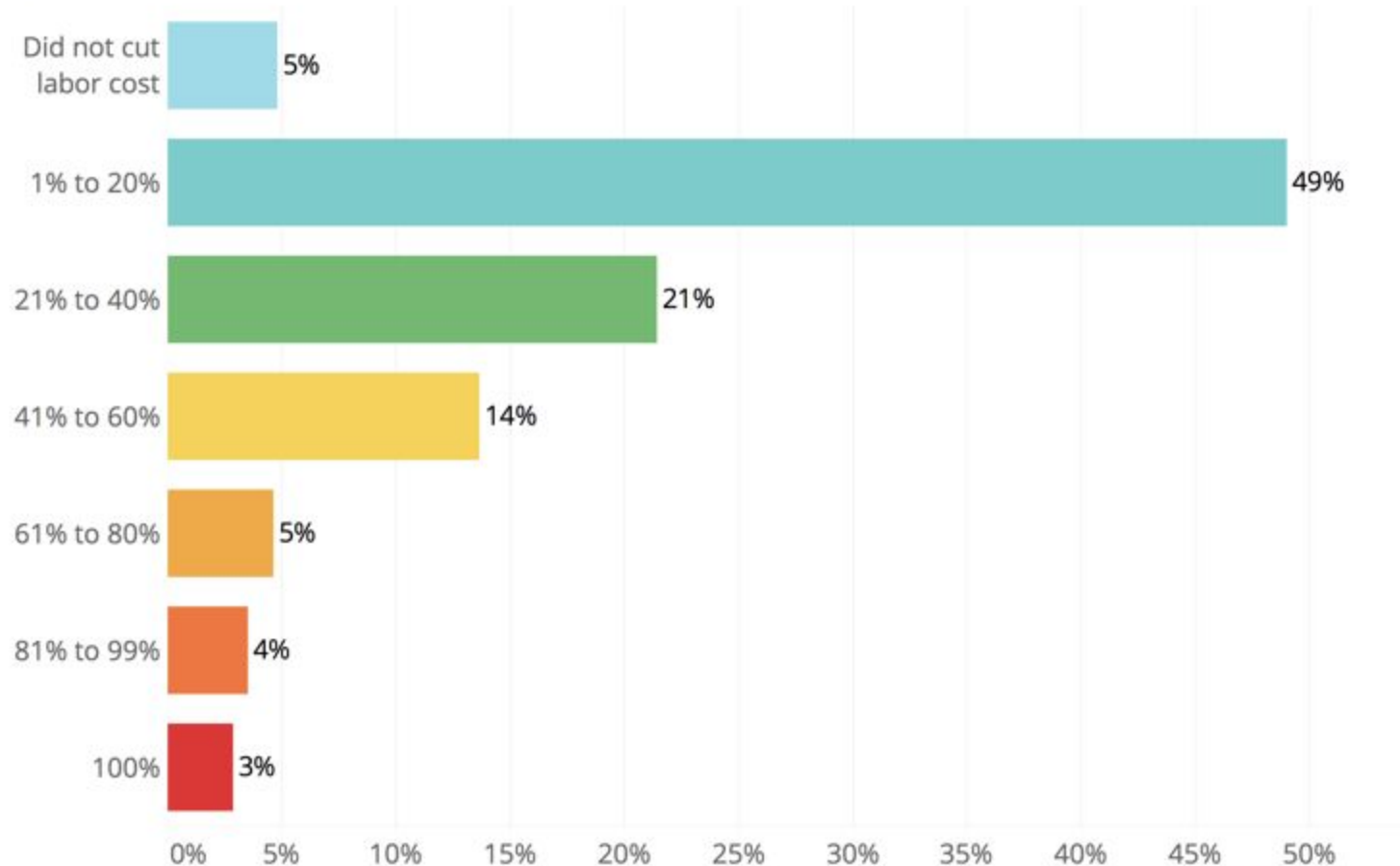
U.S. companies (the lion's share of responses in North America) probably had to lay off more employees in part because of the relative lack of payroll protection programs, when compared to Europe, as well as having a regulatory environment for labor markets that is more friendly to layoffs as well as contract and part-time work.



When we broaden the scope to look at all staff, including contractors, part-time workers, and consultants, **the vast majority of companies —95%— have reduced labor costs.**

Change in Total Labor Cost

Includes Full-Time, Part-Time, and Contract Staff



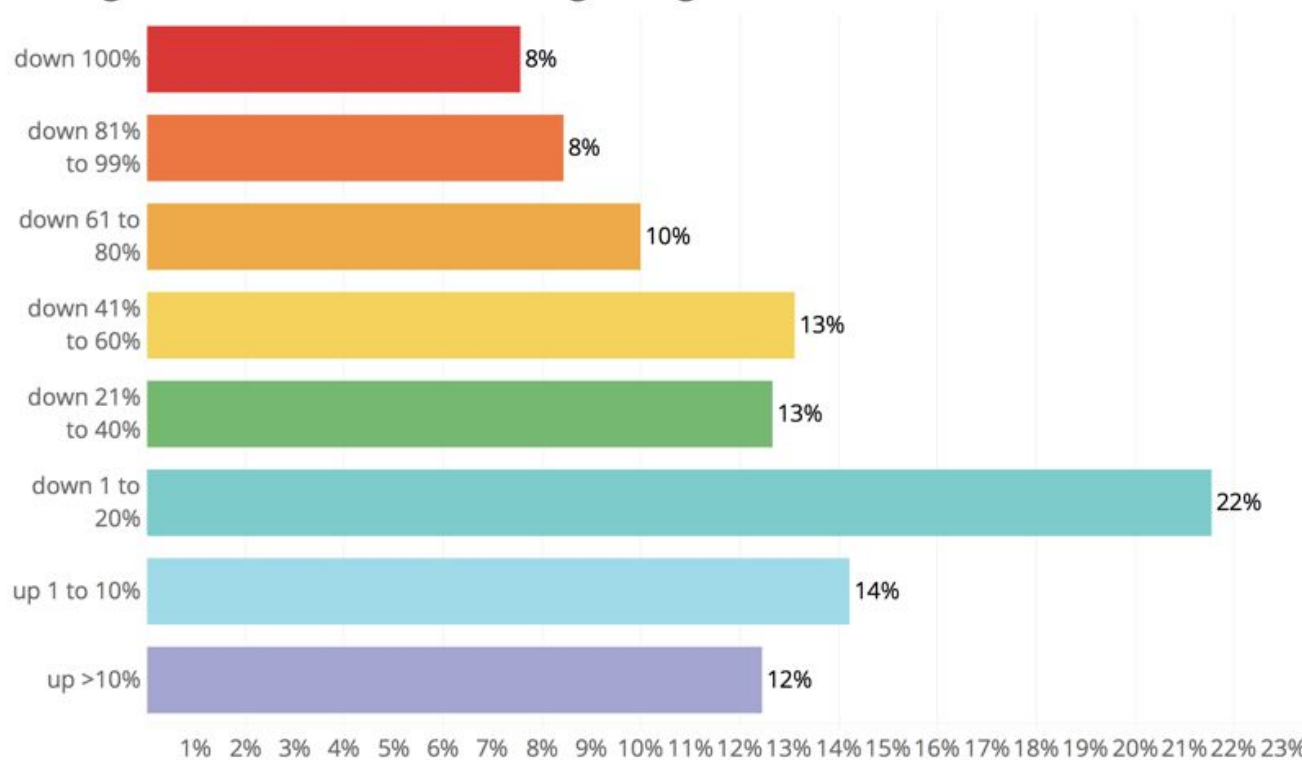
Source: Startup Genome | www.startupgenome.com



3) Market

An overarching problem for startups as a whole, and the economy in general, is the significant drop in demand—and thus revenues. **Since the beginning of the crisis 74% of startups have seen their revenues decline.** The most common type of change in revenue is a relatively modest decline—one out of every four startups saw their revenue decline by less than 20 percent. However, a sizable share of companies were very heavily hit: **16% of startups have seen their revenue drop by more than 80%.**

Change in Revenue Since the Beginning of the Crisis

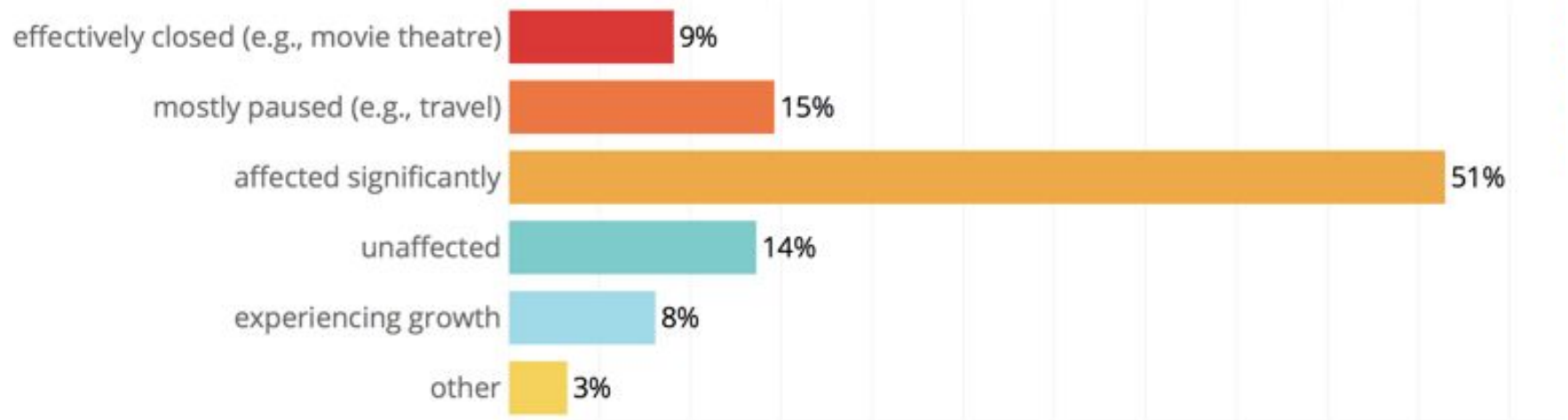


Source: Startup Genome | www.startupgenome.com



A major reason for the drops in revenue come from the effect of the crisis on the industries these startups serve. **Three out of every four startups work in industries severely affected by the COVID-19 crisis.**

Effect on Your Industry



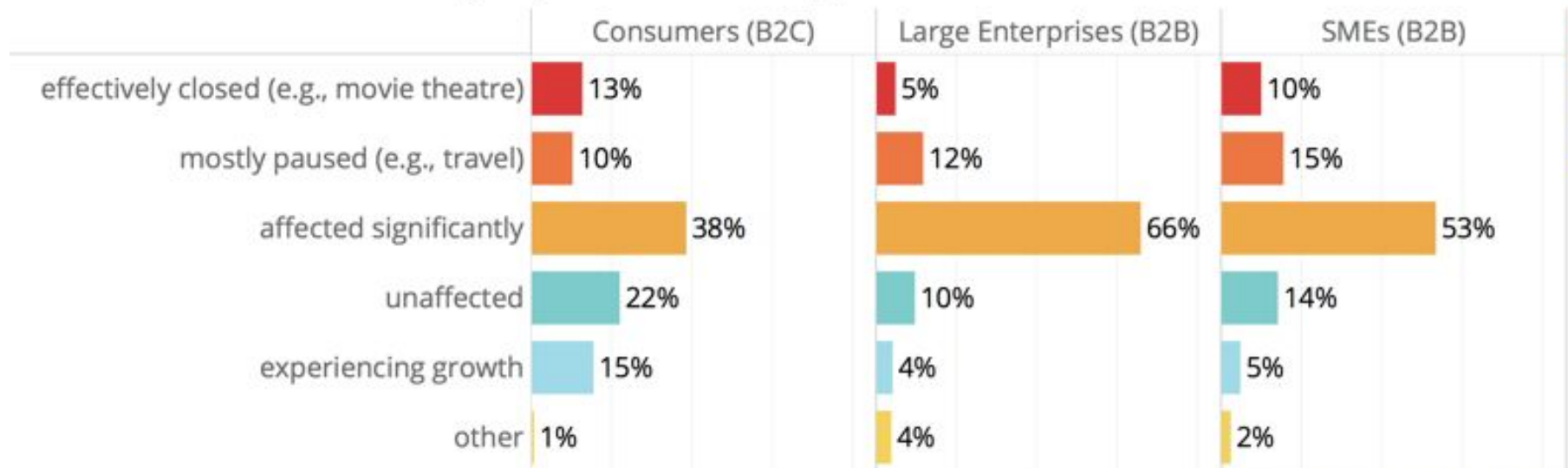
Source: Startup Genome | www.startupgenome.com

At the same time, a small minority of companies is actually experiencing growth. Every crisis creates opportunities. For instance, over [half of Fortune 500 companies](#) started during a contraction, and over [50 unicorns were created in the Great Recession alone, as Startup Genome data shows.](#)



The COVID-19 crisis is no exception. 12% of startups have seen their revenue increase by 10 percent or more since the beginning of the crisis, and **one out of every 10 startups are in industries actually experiencing growth**. The hurt and the growth are not evenly distributed. **B2C startups are about three times more likely to be in industries experiencing growth when compared to B2B startups**. This is likely coming from a mix of companies (especially large enterprises) slashing expenses quickly, while consumers are changing their consumption patterns towards spending a higher relative amount of time and money online (which benefits tech companies more than it does 'traditional' businesses).

Effect on Your Industry, by Customer Type

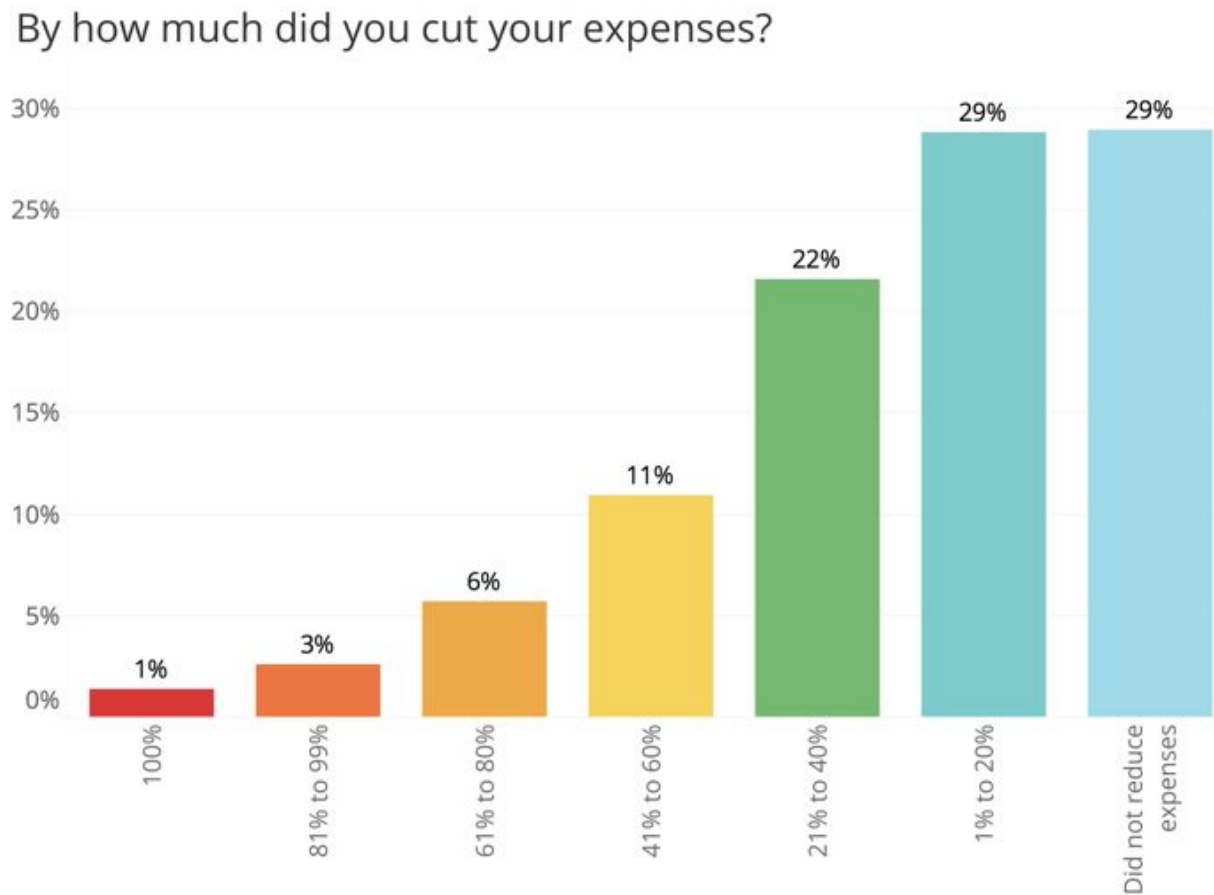


Source: Startup Genome | www.startupgenome.com



4) Operations and Management

When we look at cost-cutting measures across all categories, over **two thirds of startups have reduced their expenses** since December 2019, with 42% doing cuts of more than 20%. Some companies have cut costs very aggressively, with more than one out of every 10 companies reducing costs by over 60%.



Source: Startup Genome | www.startupgenome.com



When we look across continents, North American businesses were slightly more aggressive in terms of cost-cutting, with a higher share of them reducing costs by 60% or more.

% Cost Cutting by Continent



Source: Startup Genome | www.startupgenome.com



In terms of timing of main cost-cutting decisions, Asian startups started cutting costs a little bit earlier, but not by much.

	January		February		March	
	1st half	2nd half	1st half	2nd half	1st half	2nd half
Asia	4%	5%	6%	8%	18%	35%
Europe	5%	1%	5%	6%	19%	52%
North America	3%	1%	3%	8%	22%	44%

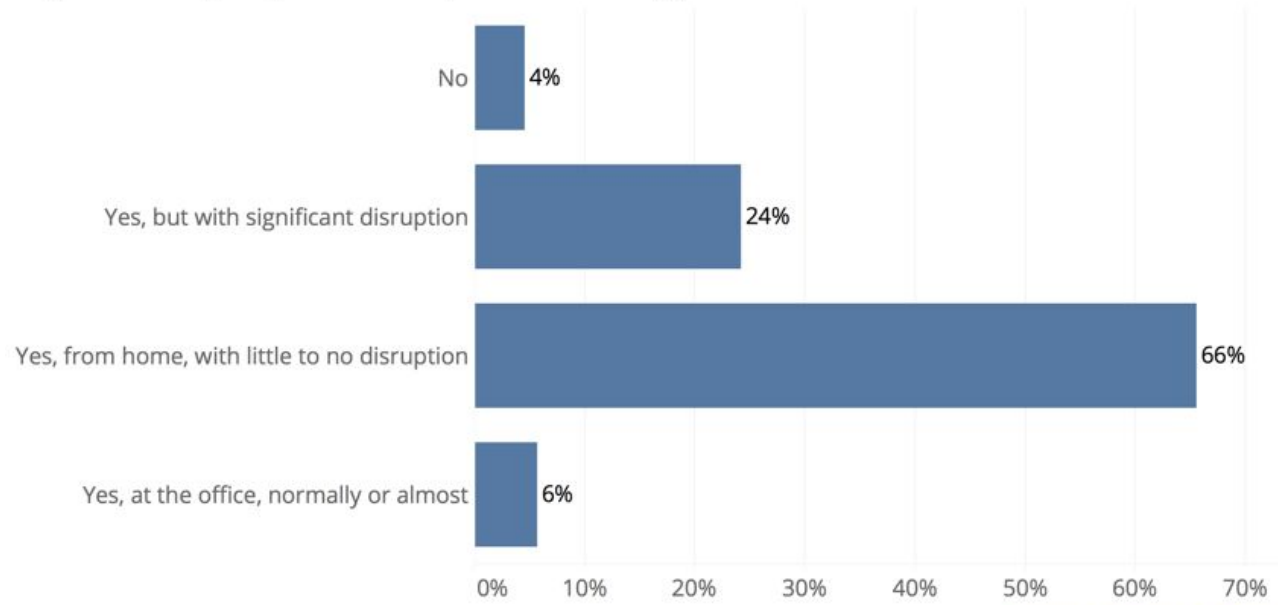
Each number shows, of all startups that had yet to make cost cuts, which ones did it in that time period.

Source: [Startup Genome](#)



Nonetheless, despite the squeeze in reducing costs, tech startups are uniquely situated to continue operating even in lockdown scenarios. Unlike many traditional businesses, **96% of startups can continue working during lockdowns**, even if there is significant disruption.

Is your company able to operate during lockdowns?



Source: Startup Genome | www.startupgenome.com

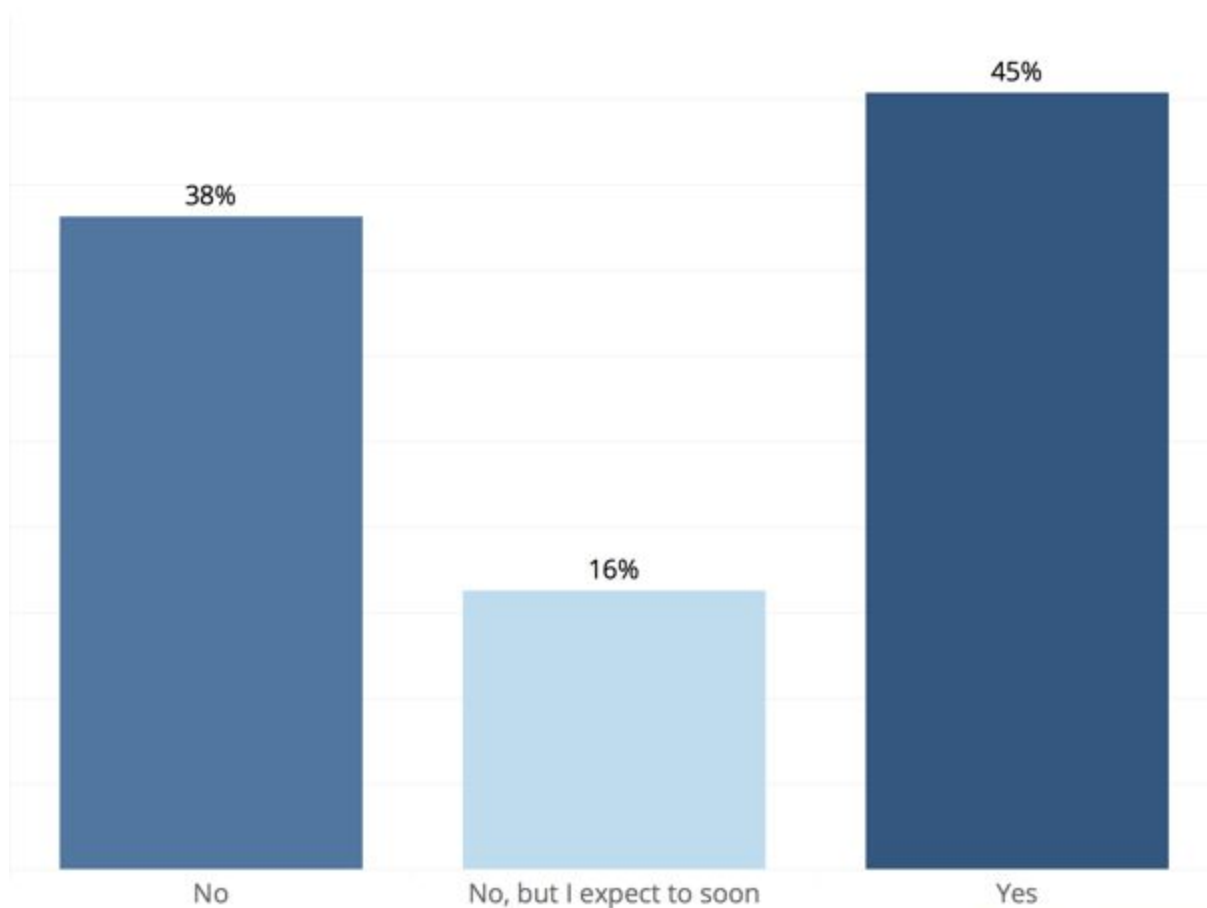


5) Policy

About 60% of the founders are receiving assistance or expect government policies to support their businesses directly or indirectly.

Over 90% of those startups currently getting aid, or expecting policy help soon, are receiving or looking for support from national governments. **29% are also being supported by city and state governments.**

Do you expect any already announced policy to support your business?

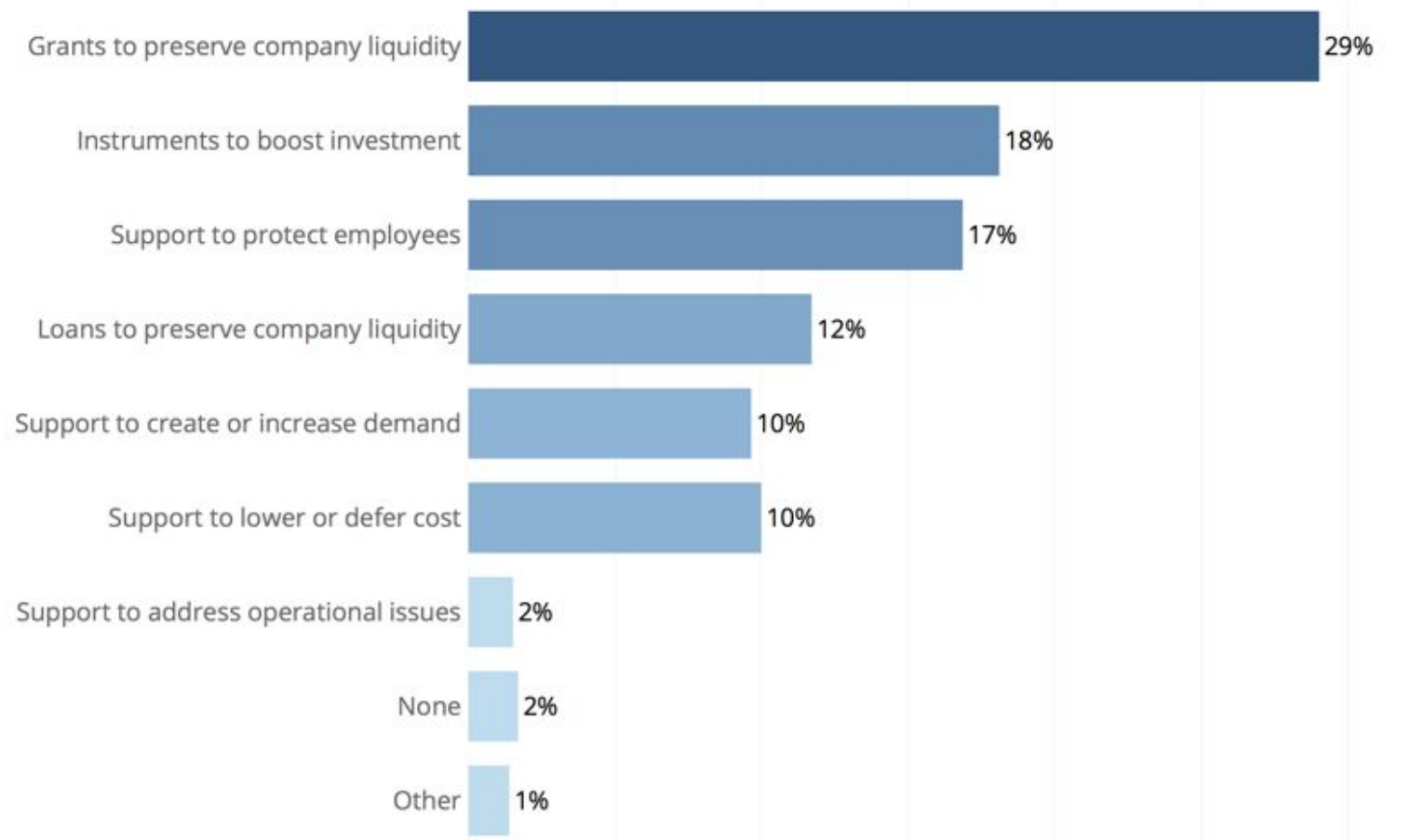


Source: Startup Genome | www.startupgenome.com



According to founders and startup executives, the top four most helpful policy responses for their businesses would be, in order: **#1 Grants to preserve company liquidity** (29%); **#2 Instruments to boost investment** (18%); **#3 Support to protect employees**, like payroll supplementation (17%); and **#4 Loans to preserve company liquidity** (12%).

What type of policy support would be **most** helpful to you?



Source: Startup Genome | www.startupgenome.com



Methodology and Framework

Data

Key results here come from Startup Genome's proprietary Global Startup Survey. 1070 respondents answered the survey, across every continent and in over 50 countries, between March 25h and April 17th. Companies come from every startup sub-sector (e.g., AI, Digital Health, Edtech, Life Sciences, etc.), tackle various markets (e.g., B2B, B2C, B2G), and are at different funding and lifecycle stages. A small share of companies, around 5%, have closed since the beginning of the crisis. For those, we asked questions pertinent to their current stage. In this analysis, we only include technology-driven startups, excluding young businesses in non-technology sectors. We define a startup's location by where most of their executives are based at.

While the survey instrument is focused on addressing questions about the COVID-19 crisis effects on startups, it builds upon our experience surveying thousands of founders globally across several years.

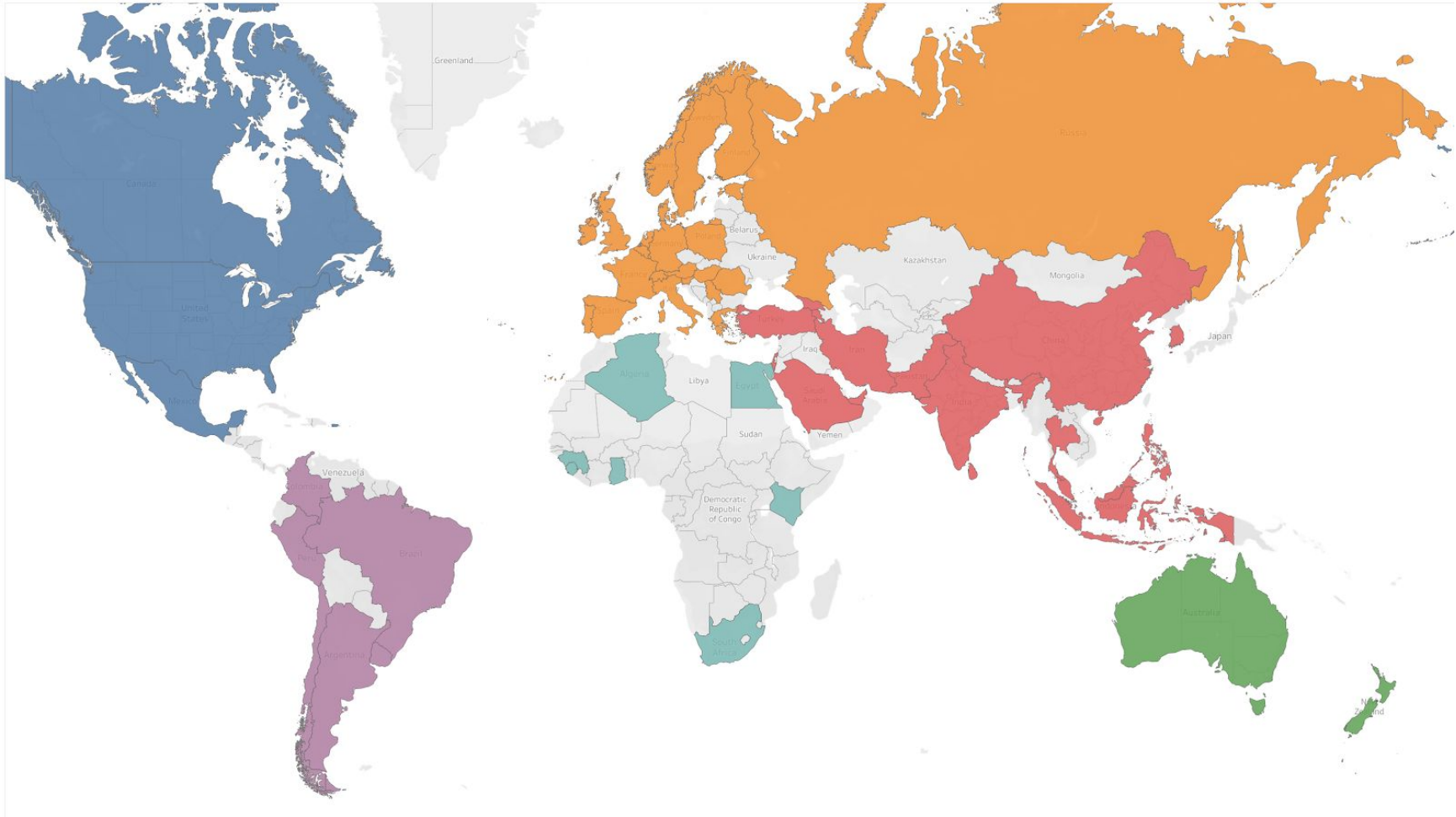
The data collected so far was based on Startup Genome's panel of tech startups. Startup Genome will continue to collect data on the topic with our global member network, and will continue to publish results.

If you are a startup and want to take the survey to share what is happening in your business and market, you can take it [here](#). Your input is crucial.



If you are a policymaker or ecosystem support organization and would like to deploy the COVID-19 Impact Global Startup Survey in your community and get detailed insights about what is happening on the ground (and how your ecosystem stacks up with what is happening globally), please reach out to Adam Bregu (adam@startupgenome.com).

Countries with Respondents





Framework

We developed our survey instrument around five key factors: Capital, Talent, Market, Operations, and Policy. In addition to the results we publish here, we collected more in-depth data which we will publish in the coming weeks and months.

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