Do startups overestimate themselves during fund raising?

Some startups raise more money than expected, but a study conducted by Early Metrics has revealed that most startups are disappointed by the amount they end up with. Investments aren’t a lottery and yet estimating value and financing can feel a lot like gambling for many startups.

Many startups launch their ICO (Initial Coin Offering) by hoping they’ll raise millions but end up with a couple of thousand pounds. Ego and flourishing markets could let anyone think that they can raise huge amounts. But they must stay humble and review their business plan again for their project to be credible. ICOs aren’t the only exception though. A survey conducted by Early Metrics, experts in ranking startups, showed that more than half (52%) of startups who raised money at an early stage or Series A set the bar too high.

The difference isn’t that significant – on average, startups reach about 83% of the funds they hoped for – but it is symbolic. Instead of the initial £1.2M they wanted to raise, they ended up with £933K and fall just short of the emblematic one million.

> *“It’s common for startups to aim a little higher in order to impress investors and show that they have the potential to be the next big thing.” – Early Metrics*

It’s a double-sided strategy. Some investors see these startups as too eager, while others look at them as very ambitious.

Discover Early Metrics

Startups who have an income have the upper hand

Only one out of ten early-stage startups will correctly evaluate the amount that they will end up reaching.

> *“It is complicated for a startup to decide exactly how much capital they need in order to grow and to know how much to aim for during fund raising. Investors know how difficult it is to estimate the return on investment and to measure the risks well.” – Antoine Baschiera, cofounder of Early Metrics*

This is even more true for startups that don’t have an income yet. On average they only receive about 74% of the amount expected for while startups that already have income receive 91%.

However, the survey showed encouraging data. Half the startups reach between 70% and 150% of financing that they aimed for; “which demonstrates that many of them are realistic.” “The difference isn’t as important as we have thought it to be,” Antoine Baschiera puts it into perspective. “Fund raising is becoming more professional and entrepreneurs stay more and more informed.

Remain realistic without underestimating yourself

Most startups bite off more than they can chew. But some companies set themselves goals that are a little bit below them. This is the case for 38% of startups who end up receiving what they imagined initially. The study demonstrates two reasons for why this happens. On one hand, “the young entrepreneurs readjust their goal in relation to the advice they received from mentors or investors.” Some realise during the funding round that they are going to need to raise more because their product or service needs greater finance in order to develop properly. On the other hand, the risk of dilution through the small and numerous rounds encourages investors to offer larger investments but then leads them to ask for a larger capital share in exchange.

“This result shows that it is very difficult for young entrepreneurs to estimate their value correctly, especially if they lack financial coverage,” concludes the survey. There is a great importance on the first rounds, which shouldn’t be too significant – so that you don’t risk betting too much on the following discussions, nor too weak – so as to not let the potential development of the startup plummet. The value of the startup is based on a potion whose recipe varies from one investor to another and can turn out to be a sweet or deadly poison.

The five important factors for your fund raising

Investors will, of course, look at revenue and the so-called KPIs (Key Performance Indicators). That’s not it though!

> *“Early-stage investors can’t base their decisions on the financial performance of the startups because of a lack of trading. They are interested in the young business’ qualitative characteristics. Therefore, they*

> *won’t just remember the importance of the innovative character of the project, but also the skills of the team and the reputation of the business.” – Antoine Baschiera*

So, there are five factors to remember:

1. The speed of execution
2. The influence of the press and social media
3. How well the team works together and how qualified they are
4. The innovative character of the project or product
5. How well the partners manage finances

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