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What are the opportunities for startups post-COVID?

In a recent webinar hosted by Microsoft for Startups and Aster Capital, Jerome Joaug and Amali de Alwis discussed opportunities, challenges and what the future economic landscape will look like for startups, innovators and investors.

Businesses the world over will be feeling the burn during and after the COVID-19 pandemic. A McKinsey report found that small-to-medium – those with less than $5M in revenue – businesses will be disproportionately affected by the pandemic.

Startup challenges have been numerous and varied, from a rapid fall in demand in certain industries to a drop off of venture capital funding and investment. Even when the lockdown lifts, startups will be faced with the worst economic recession in memory.

But every challenge is also an opportunity, and COVID, in many respects, has been an accelerator of change and a driver of new opportunity.

Jerome Joaug knows a great deal about what it takes to scale and grow a startup, as well as what investors are looking for. He’s been the founder of two startups: the first, a graphene nanomaterial supplier called Cambridge Nanosystems, followed by an internet of things (IoT) startup called Nymbly.

Having sold both, Jerome now sits on the other side of the negotiation table, working as a partner at VC firm Aster Capital.

In a Microsoft for Startups webinar, Jerome spoke to Amali de Alwis, managing director of Microsoft for Startups UK, exploring what the post-COVID landscape is going to look like for startups, and how they can best prepare for these changes.

Watch the Webinar

Evaluate and understand what you are offering

Lockdown has been a long period of self-reflection and introspection, a chance to take stock of priorities and values. Startups, too, have been forced to reckon with the products and services that they are offering, asking whether they are still relevant during and after the pandemic.

For Jerome, this is actually a very good side effect of the pandemic.

> *“It’s something I say to lots of CEOs and founders: when you wake up in the morning, ask yourself is your business still relevant?”*

First and foremost, if cash flow is a primary issue, then it’s important that you focus on solidifying the existing business. Excessive building or adaptation could be fatal if you are short on revenue.

It may also be about entirely shifting your model. Jerome refers to one business he works with which switched from business-to-business (B2B) to business-to-customer (B2C) in a matter of weeks during the crisis. “Lot of startups save themselves because they look at segments which they weren’t looking at before,” he says.

Part of this is really understanding and getting to know who your customer base is. Jerome suggests that different people will have different reactions to coming out of lockdown—some may be straight back in the pub when it reopens, while others will approach social gathering with caution.

> *“It’s so important to understand who your customers are—by age, by class, by geography, by habits—because they are going to react in different ways.”*

Opportunities for growth and innovation

Economic crises are often great drivers of change: gales of creative destruction, as American economist Joseph Schumpeter, described them.

There are clear areas that have seen vast growth over the course of the pandemic and will continue to be relevant even after lockdown. “Future of Work” technologies, as Jerome dubs them, like Zoom and Microsoft Teams, as well as technology and e-commerce in general, are clear examples of products and services that will benefit from continued innovation.

He anticipates further innovation in ‘blue-collar’ jobs (such as manufacturing), an area in which innovation has lagged but will rely heavily on digitalisation in the coming years.

He also recognises how a post-COVID world could see serious growth for certain areas which have maybe occupied a peripheral position.

Take the automotive industry. Car sales have crashed by 89% compared to the same time last year, with May registering the worst month for the UK car industry since the 50s. But out of the ashes, electric vehicle sales have doubled. The Tesla Model 3 was the best-selling car in the UK in both April and May; in the top ten best-selling cars, six were electric or hybrid models.

Jerome believes that consumers are making some inadvertent link between COVID and climate change, and that’s impacting their habits. For this reason, he expects there to be a similar effect on renewable energies, which is one of the main portfolios that he invests in with Aster. “We’re seeing a shift and acceleration in consumer behaviour.”

Reassessing investment and funding

Funding and investment is another monumental challenge that startups have to face in a post-COVID world. The UK has seen a 32% drop off in equity investment compared to this time last year.

The UK government last month announced a £500M Future Fund, which aims to match any investment from the private sector, up to investments of £5M.

Jerome estimates that just 10% of funds remained active during lockdown; many, like Aster, paused operations and investments. For some investors and VCs, it was as simple as not having money to deploy.

While cash flow has picked back up, uncertainty and instability remain, particularly as we enter the worst recession in a lifetime. The investment will not be as readily available, and startups will have to reassess how they attract the attention of funds.

First and foremost, startups without a business model will be less likely to receive investment.

"If the business side isn't taken into account from the beginning, after 18 months it'll become a lot harder. Investors will be looking for more from the proposal from the business side – a better understanding of customers, a model that can work, will be much more important for us," Jerome advises.

This, in turn, will force startups to reassess what they are offering and whether it is sustainable from a business angle in the new climate.

> *"I expect startups to put into question everything they've done, and ask 'Is our value proposition still relevant now?"*

If and when a startup does receive funding, they are likely to be more cautious. Formerly, after receiving funding, companies tended to hire heavily in the sales area; now, they must be more considered in their long term strategy. "There are fewer opportunities to make mistakes," Jerome says.

Building a strong company culture

While the financial and operational outlook may be uncertain and bleak in parts, some of the opportunities and potential benefits are human-based. In terms of recruitment, Jerome believes that COVID has presented a great opportunity to tap into quality talent. In a city like London, most of the top talent would have been snapped up by big employers like Amazon and Google.

But now the value proposition that startups offer —smaller, leaner, more dynamic—-really gives them an advantage. "For most startups, you don't want people who just want a job. You can now identify people who really fit into your culture, and who will thrive in your organisation."

COVID has also reemphasised something which Jerome believes is central to any good business: good management practice.

Companies that have done well in lockdown and endured the economic impact have been run by leaders who are attentive to their employees and their needs. Those who have neglected employees have paid the price, with many companies and startups seeing employees leaving despite the financial insecurity of a global recession.

"This is something I hope will stay," Jerome underlines.

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Article by SIMON LOVICK