Unsplash © Hanson Lu

The pandemic may change the face of startup VC funding for the better

The COVID-19 pandemic has forced US venture capitalists to abandon the "20-minute rule" and seek startup investment opportunities across a greater geographical catchment area.

Investors are conducting meetings and due diligence remotely, creating a virtuous cycle for cities and firms in the Midwestern or Southeastern US that were not part of the country’s technology boom largely located in Silicon Valley.

Why does this matter?

Previously, the preference for VCs investing close to home was justified by the need to stay close to manage their portfolio companies in person. As the entire world has adapted itself to remote working, however, the prospect of in-person anything is slowly becoming a feature of the past.

This new development could open up a huge opportunity to decentralise over-saturated business hotspots like Silicon Valley, allowing startups to reduce the costs of their overheads by setting up shop in cheaper geographical areas and also increase the proportion of funding going directly into R&D.

Creating more opportunities for business outside of high-cost areas also poses many social opportunities to increase diversity and inclusion in the start-up sector, as it widens the pool of choice and removes a portion of the wealth barrier that can hinder small companies' growth.

While the article above notes US VCs are now eyeing the Southeast and Midwest, we should keep an eye on the potential beyond borders as well. While remote work has reduced access to domestic interests, it has placed geographically diverse investments – such as startups in Asia and Africa – in a more attractive position by comparison.

Lateral thought from Curation

We've previously brought up the potential positive opportunities that remote working, and a shift away from office-based work, can have for various members of the workforce. In a similar way to what we've highlighted above, working from home creates more opportunities for workers who face limitations such as child-care responsibilities, commuting expenses and, for some with disabilities, inaccessible offices.

Alongside these positives, however, recent months have revealed an unsettling trend of regression when it comes to issues of diversity and inclusion, which the pandemic is exacerbating. For example, over the year 2020 women only made up 5% of CEO appointments in the UK, as companies preferred to look to those with previous c-suite experience amid economic instability and thus hire from a largely unrepresentative talent pool given the historical low representation of women in these roles.

A concerning trend that may unfold in this case is investors attempting to replicate the Silicon Valley experience in places with vastly different cultures. To truly realise the potential of diversity in these areas, investors need to ensure that they don't miss out on local management talent too.

Sign up for Sustt

Article by SARA TRETT