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Startup success: the difference between good and bad financial advice?

Over the lifespan of a startup, founders have a number of crucial decisions to make around fundraising and mergers and acquisitions (M&A). Without the right expertise, these decisions can lead to failure.

There are many reasons why startups fail. The decisions that you have to make as an entrepreneur, of which there are many, can be the difference between longevity and failure. And often, unless you have specific expertise or prior startup experience (perhaps you've failed before), the difference can be almost impossible to detect.

Financial decisions are a great example of this. Over the lifecycle of a startup, founders will toe a fine line between making important financial decisions that, done properly, may boost the company, but done incorrectly could ultimately lead to your failure.

Florent Roulet, cofounder and Partner of Corporate Finance advisory firm *NOR Capital*, often asks—is this worth the risk? His team at NOR Capital provides financial advice throughout the startup lifecycle, from raising capital one or several times, to making selected acquisitions, to ultimately exiting the company. For him, this sort of advice might just be the difference between success and failure for the startups he works with.

What common mistakes do founders make?

Having built the company from the ground up themselves, it’s not ludicrous that a good proportion of founders believe they can navigate financial decisions themselves too.

This may be for a number of reasons. First, that they may have done it before, and have confidence in their ability to raise capital, or navigate a sale transaction. Secondly, they may have an existing network of investors, mentors or contacts, and so don’t consider it worth spending the money to do it through someone else. Finally, there may be a slight hesitancy, even embarrassment, to be seen asking for help. “There’s a fear of this perception that, if we can’t do it ourselves, then why would people invest money in us?” Florent says.

But among these reasons for doing it yourself, founders often ignore some of the realities of these different decision making processes.

Bandwidth is one main challenge. It takes a lot of time to raise capital or to sell a startup.

> *More than that, it can be a draining, exhaustive and lonely process, which may often detract from the real excitement or drive of running an innovative company.*

There may also be conversations that you’re missing out on. Are you really able to speak to every possible relevant investor or buyer? If not, then there’s a chance you could be missing out on a critical opportunity for your startup.

There are also difficult conversations to be had with investors or buyers, for example if the valuation you’ve been given isn’t right. As a founder, you want to focus on building relationships with these individuals and thus can make the difficult conversations even harder.

Having the difficult conversations on your behalf

Florent perceives the role of a financial advisor as very similar to a talent agent for a footballer or performer. Investment bankers assist on the time-consuming processes, to bring their industry and transaction expertise, as well as their network.

NOR Capital provides Corporate Finance advisory services to businesses in the technology, media, and telecoms (TMT) space. Their advice focuses primarily across three main areas.

First, raising capital—focusing mostly from Series B (earlier rounds tend to be too small to make economic sense). For NOR, this is often the first introduction to founders and can be the start of a longer term partnership.

“Ultimately, we know who to speak to, how information should be organised and a process managed to create competitive tension between potentially interested parties,” Florent says.

They assist on the M&A side, either when a startup is looking to make an acquisition, or if they themselves are trying to sell the company. For the latter, it’s crucial to make sure your valuation expectations are sensible, and that you’re always communicating the right messages to the potential buyers. For instance, NOR helps test the waters for a sale “off market”, seeking interest and feedback from potential buyers about the prospect of such an acquisition.

The final pillar they help across is strategic advisory. In short, this is getting involved with an entrepreneur around 12-to-24 months before they’re ready for a transaction, and helping them to prepare for this. It’s not like strategy consulting firms – ”We’re not telling people what to do,” Florent says—but rather investing time and advising clients in advance to ensure that it goes as well as possible when the right moment comes.

In an ideal scenario, Florent says, NOR Capital helps across some or all of these transactions, rather than just parachuting in to solve one problem.

> *Their best results typically come when they’re involved across the whole business lifecycle.*

One example of this is *MaaS Global*, a Finnish sustainable mobility business developing the Whim mobile app. In Summer 2020 they approached NOR after finding themselves in a situation where COVID stopped their fast growth trajectory. Across several months of working with NOR Capital, they convinced both old and new investors to invest despite the loss of momentum, they acquired a competing Spanish mobility business, launched operations in Switzerland in partnership with a local insurance firm and now, they're starting to raise their next financing round.

Maddyness, media partner of NOR Capital

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