Unsplash © Thibaut Marquis

Size matters: media megaround myopia paints distorted picture of seed-stage fundraising

Startup valuations have been brought into stark focus in recent months, and the picture is bleak. The number of companies achieving unicorn status is slowing - in 2021 537 hit that milestone globally, but so far this year just 230 have done so as macroeconomic headwinds hit venture capital. While this might spark some concerns for the health of the global startup ecosystem, the silver lining is that it might just stop the obsession of many media outlets with covering only large funding rounds (because, presumably, a bigger number means a better business).

When it comes to the seed stage, many startup-focused publications rarely cover rounds below £1M, let alone those below £500,000, instead focusing on the biggest deals at that stage – and the situation is even worse if you look at the national media. While understandable – big numbers are enticing, and it's easy to see raising a larger round at an early stage as a sign that a startup is "one to watch" – this bias to larger rounds means the media presents a distorted view of a market where the median deal size is around £200,000 to £300,000.

The argument that "biggest equals best" doesn't always stand up. The media's failure to write about smaller seed-stage deals does the community a disservice – these deals are far more representative of what is actually happening in the market and what a founder's experience will be. The notion this misleading media coverage can lead to that raising a lot of money equals success – or that it should be a goal in itself – risks setting founders off on the wrong path, trying to emulate those stories to get the kudos and airtime rather than doing what's best for their business, at a stage when the impact of every false step is massive.

First and foremost, we must remember that the media cares about stories, and startup success is about making money. There are a number of interesting businesses with great stories to tell about achieving profitability having raised only a seed round. They've achieved this by getting the business model and growth strategy right, managing their finances, and focusing on sales.

At the early-stage, speed and execution is critical to grabbing market share and, ultimately, success. This is where the "bigger is better" belief can be damaging, as founders who think they should be raising large rounds often approach the wrong investors for what they have on the table in terms of traction. As a result, they waste time that could have been spent creating customers, sales, and profit. They also fail to prepare sensible budgets and spending plans when they should be focused on what they can achieve with limited resources and funding. Not doing this work means that the company is not ready to make some of the hard choices you have to make at this early stage.

But it's not just founders that this media myopia affects. Here in the UK, we are a small business economy – but media coverage that is not reflective of the UK's true story has a knock-on effect on the Government's understanding of – and policy for – early-stage markets. At this point in time, early-stage investments facilitated by the Seed Enterprise Investment Scheme (SEIS) generally gain very little in the way of media profile, compared to the bigger, later-stage investments. Prior to the new chancellor's "not so mini budget", SEIS funding had plateaued, partly due to the £150,000 cap, which had been in place since it began in 2012 and did not create the financial runway the startups of today needed. Thankfully, due to lobbying from those who invest at the SEIS level, the SEIS funding cap has now been increased to £250,000. A crucial step to ensure early stage businesses can secure the financial lifeline they need, but an extra £100,000 will be unlikely to draw the attention of the journalist who only writes about the biggest funding round. This lack of media attention at the seed stage, reduces the exposure of the issues these businesses are facing and ultimately, could impact the later stage pipeline as the problems at the earliest stage are not being addressed.

Ultimately, the media are not VCs – they do not need to focus only on companies with unicorn or decacorn potential, and they should be telling the story of the investment landscape as it really is – representing the whole market, of which smaller deals make up a huge percentage. Editors and reporters might see this as a daunting task – with so many seed stage investments being made, and so many of those businesses failing in the first few years of their life, it's difficult to say with any reliability which might be a success and therefore vindicate the choice to cover them right at the start of their journey. But who knows, maybe one day, a journalist decided to focus on 'that' seed round, of 'that' interesting business, that ultimately became not just a unicorn, but a game changer in their industry. Would that not be the best story of all?

Stephen Page is CEO at *SFC Capital.*

Article by STEPHEN PAGE