

# 7 ways investors can identify promising startups in the UK marketplace

Being able to identify a promising startup can reap some considerable benefits. I mean, who wouldn't want to be able to identify the next Deliveroo or Uber? The question is, how do you go about identifying these startups in a UK marketplace?

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Over 750,000 new companies were incorporated in the UK in 2022, which is both good and bad news. Yes, the startup market is still on the up, but identifying those to invest in can be challenging.

In this article, we're going to be looking at the best ways investors can identify promising startups in the UK marketplace.

## Get networking ASAP

Networking remains one of the best, if not the best ways to introduce yourself to brands, meet like-minded business people and build new working relationships. For investors, the good news is that there are thousands of networking events to dive into.

Sure, building up your LinkedIn and social contacts is always good practice, but physically getting yourself out there is just as, if not more important.

Oli Barrett MBE, who runs the course 'Build a better network' says that the key to effective networking is 10% about meeting interesting new people and 90% about keeping in touch with interesting people you've already met.

Regardless of where you're based, there's always a networking event in some shape or form taking place in the UK - pretty much every week.

## Look for a strong management team

No UK startup is worth investing in if it doesn't have a strong and sustainable core.

The majority of startups are run by their owners, which most investors would prefer as the incentives of the management team naturally align with the shareholders. It also helps to have employees who share and believe in your vision and feel valued and respected.

Having strong management digging deep when times are tough and having a solid structure and vision in place from the beginning.

Ultimately, this means they're far better equipped to navigate challenges, pivot when necessary, and capitalise on opportunities in highly competitive markets.

## Attend startup competitions

What better place to find startups to invest in than competitions designed to pit the best against each other in the startup capital of Europe?

These competitions come in many different shapes and sizes, but most are funded by private companies looking for the best solution to address specific challenges they're facing.

These competitions are great for investors because they showcase startups that have already proven their potential to innovate and solve real-world problems. For startups, participating means getting valuable feedback, mentorship, and exposure to potential investment opportunities.

Startup competitions are a win-win situation where investors can identify promising companies early on and startups can get the support they need to grow.

# Identify startup scalability opportunities

Investors will be more inclined to invest in startups that have all the necessary systems in place to scale their operations efficiently and effectively.

This means having a strong infrastructure, adaptable technology, efficient processes, and a clear expansion plan. Startups with scalability can, not only reach more customers and make more money but also handle growth without running into major problems.

Plus, it makes them more appealing to investors because they can handle bigger demands and take advantage of growth capital opportunities without hitting roadblocks.

However, bear in mind that scalability looks different depending on the industry and company you're investing in. For example, a software startup might need to upgrade its technology and servers to handle more users, while a manufacturing startup might focus on increasing production and managing the supply chain efficiently.

It's important for investors to understand how scalability works in each specific context to evaluate a startup's potential for growth effectively.

## Check for a clear plan to turn a profit

It should come as no surprise that effective financial management is going to be a big plus for investors.

No matter how good the idea is, you don't want to invest your time and money into a startup that has shaky financials, especially considering the startup failure rate in the UK is approximately 60%

You'll want to take a look at their balance sheets, income statements, and cash flow statements. You're aiming for stability and signs of growth. Check for healthy profit margins, steady revenue streams, manageable expenses, and a clear plan to turn a profit.

Also, keep an eye on where they're getting their funding and if they're in any debt. 38% of startups fail because they run out of money or fail to raise new capital quickly enough.

A startup with good financials not only gives investors confidence but also shows they're being smart with their money and set up for success down the road.

# Find a product or service you believe in

We're not saying you need to look for the next Dragon's Den winner, but being able to spot an innovative and potentially game-changing product is crucial to investing confidently.

A startup's product or service will need to stand out in the market, offering unique features, solving a pressing problem, or fulfilling an unmet need in a way that sets it apart from competitors.

For example, Deliveroo revolutionised the food delivery industry by creating a platform that links customers with several restaurants, making food delivery quick and easy. Features like live order tracking, specially curated restaurant choices, Apple Pay and an easy-to-use app make them different from regular takeaway services.

Deliveroo may not be the most exciting or revolutionary product or service, but its success shows how it tackled a significant technological challenge in the food delivery sector.

On the other hand, a startup might have the most interesting product in the world, but without a customer base, there's no solid reason to invest. Investors need to look past the initial excitement and consider the real-world impact and market potential of a startup's offering.

## Explore innovation hubs

Innovation hubs are places where people come together to collaborate on projects and ideas with the mission of finding solutions to complex problems. They typically provide resources that range from tools and bits of tech to full workshops and networking opportunities.

Why should investors look at these places? Because it's where ideas begin and products and services are created. These spaces aren't just designed for startups looking to make their big break either.

They also welcome researchers, business experts, and investors. Innovation hubs are essential for driving innovation and supporting entrepreneurship. For investors, these hubs provide an excellent chance to find and back groundbreaking startups, and network with others who share their interests.

So, if you're on the lookout for a groundbreaking startup to invest in, this is an excellent place to begin. Additionally, innovation hubs are a fantastic place to find investors.

It's no easy task to find startups willing to invest in, especially in this economic climate.

However, following the steps outlined above can help investors increase their chances of finding promising startups in the UK marketplace. Yes, investing in startups comes with risks, but these risks are arguably not as big as creating a startup from scratch.

With thorough research, careful consideration, and a bit of luck, investors will find it much easier to identify startups with great potential.

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