Fundraising – Back to Normality?

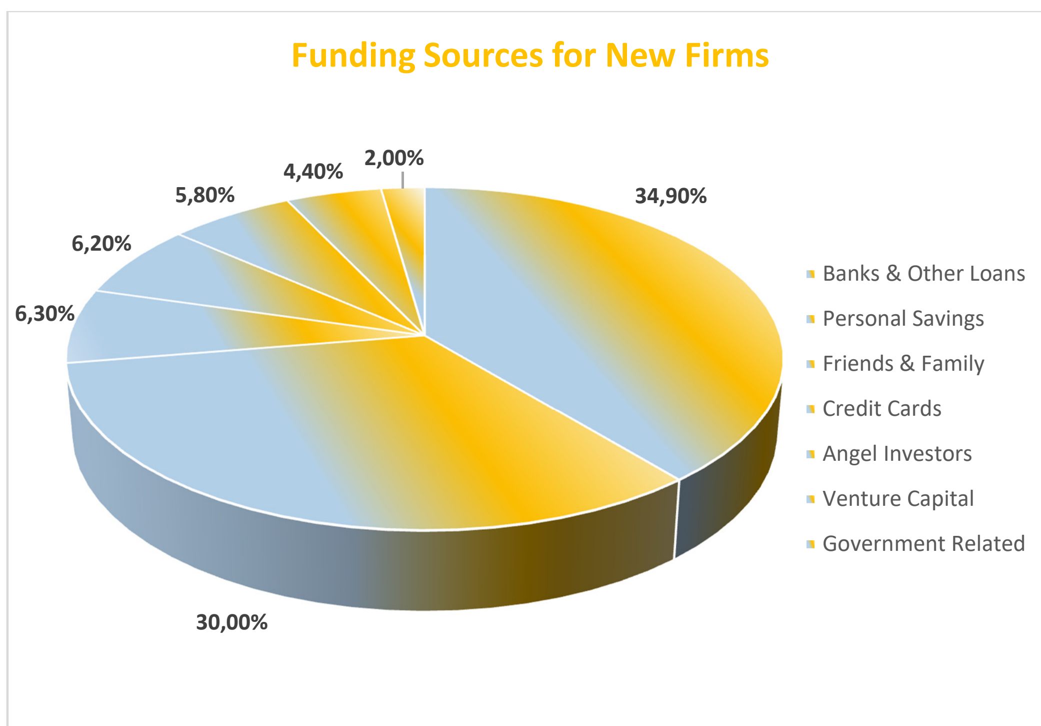
Well – not quite.

But let us first define: what is normality in fundraising? After years of boom, entrepreneurs often believe they need angel investors or venture capitalists to achieve success in their business. And they also believe that “anything goes” – they just have to put a nice idea onto the table, and investors will hurry to shed their money after them.

While outside funding can be beneficial in some cases, many entrepreneurs thrived without relying on these sources of capital – even in funding boom times. For getting a clearer picture on “normality”, let us dig a little bit into history:

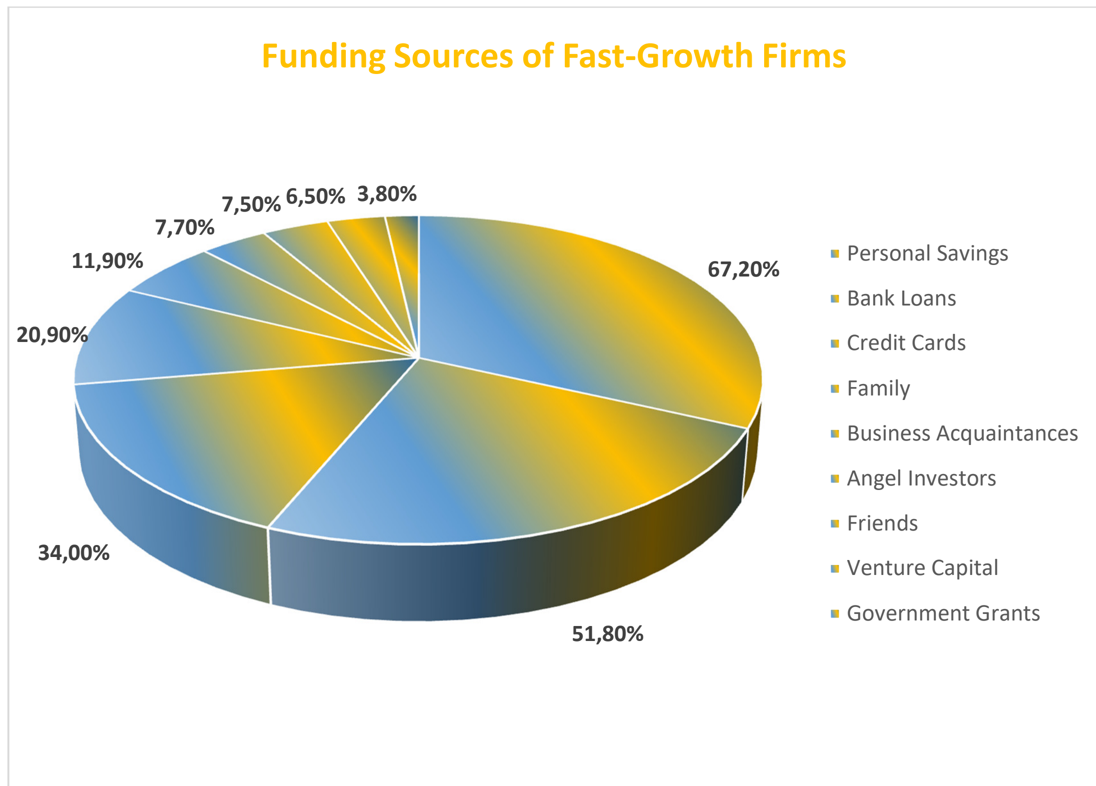
In 2015, Kauffman Foundation researched more than 5.000 new firms dispelling some of the most common myths on “start-up finance” *(Source: The Washington Post, March 16, 2015)*. 2015 has been the year of choice because it is exactly in the middle of the actual upswing in funding cycle, therefore qualifying most for the term “normality”.

The researchers discovered that banks, other loans, and personal savings made up 64.9% of funding methods for new firms. In fact, only 10% of new firms acquired funding from venture capital firms or angel investors. While angel investors and venture firms can provide capital and expert industry advising, they also come with a loss of control and diluted ownership. This study shows that entrepreneurs tend to value control of their firm over the services provided by venture firms and angel investors.



These data are also supported by a similar study on which funding methods the US 500 fastest-growing companies used, compiled by Inc. Magazine and quoted in the same source. Growth finance is a different category, even a different asset class.

Still, the results of this study are very similar to the first one; only 7.7% of these firms used angel investors and 6.5% used venture firms, whereby venture capital most probably will also include private equity – which in this asset class plays a more significant role than venture. Again, personal savings and bank loans are the most common method of funding. These studies do not conclude that angel investors and "venture" capitalists are not important to certain entrepreneurs; they are still important to raise the capital for those firms needing to upscale quickly to survive in their market.



There are some peculiarities due to the situation in the US:

- Credit cards cover an amazingly high portion of funding in the US. Nothing comparable can be observed in continental Europe.
- Venture capital and angel investments play a much more significant role in the US than in continental Europe. Still, they are not the main road to finance.
- Government related finance plays a much bigger role in Europe – though weighed down by bureaucracy.

But the main picture is comparable to continental Europe – by and large.

Yet, where do we stand today?

- Personal savings will be difficult to gather in today's financially repressive environment – with an ever-increasing state quota leaving no room for substantial savings.
- This also accounts for friends and family.
- Bank loans will be even more difficult to get due to regulatory requirements which practically bail out private business in favor of finance of "the state".
- Venture capital and angel investments take a deep dive – more than 70% YoY according to industry data. But that does not tell the whole story: those early-stage investors who are still active have switched from early-stage to late-stage mode – even though many of them are sitting on sufficient dry powder including commitments. But they are anxious about losing their lucrative annual endowments in case they bet on the wrong start-ups.

In other words:

Today, we are not "back to normality"- instead, we have a "new reality":

- Fundraising has taken a deep – and fast – swing downwards.
- Even the "classical means of finance" have become much more tedious.
- There is no political will to extend government related support, there is not even the will to reduce bureaucratic hurdles, which often outweigh the positive effect
- Large-scale private support is extremely limited and timid – just a handful of benefactors across Europe; and most of them only active within their geographical or industrial scope.
- Basically, we are back to F&F / Friends & Family – with all its new limits.
- In addition, crowd funding might increase its role – with all its limits.
- And the final point: valuations have dropped dramatically – with astronomic "inflation-adopted" return expectations by investors

As always in a downturn, risk adversity prevails.

The problem for fundraisers: most entrepreneurs have not woken up yet – especially when they turn to professional advice for help.

Yet, the equation is simple: when complexity and scarcity increase, costs increase.

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Managing Partner ACS Vienna

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