



## IMPACT OF COVID-19 ON STARTUPS

By- Dhuman Kumar

IB Analyst

Covid-19 is not only a massive Humanitarian crisis but also a huge Business crisis. A lot of industry has been impacted in last few weeks. Startups in various part of the world have seen the toughest time ever after the 2008 financial crisis. They are facing various issues from drop in the business activities to supply chain disruptions. Curtailment on travel, lockdowns, curfew has made the situation worse. The aftermath of the crisis can be even challenging with more serious cautions. The time has come for businesses to learn, reflect, discover and take some tough choices working with focus and gratitude. Let us discuss some of the major issues which startups have to deal with.

## Fund Raising

- Ⓜ Next few quarters will see less amount of new funding making the whole funding cycle to come standstill. VC's will slow down their investments with more focus and support for the existing portfolio companies. All the Private Equity, Hedge funds, strategic Investors will be busy in employing their resources and bandwidth for their portfolio versus evaluating new investments.
- Ⓜ This will be a huge challenge for the pre-seed and seed-stage company with less amount of cash in bank and dependence on the later stages of funding. Fund houses will be more busy in looking for opportunities which gives a positive outlook in the pandemic situation with more negotiation for better deals.
- Ⓜ Diligence process will be effected leading to slowdown of new investments.
- Ⓜ Reduction in Valuations of companies will even lead to more cautious investment selections. Many term sheets may get withdrawn or might see further renegotiation.

## Cash Runway

- Ⓜ Many businesses are facing reduction in business activities or even a complete shutdown. Small businesses generally have fewer cash reserves and a smaller margin for managing sudden downturns.
- Ⓜ Founders have to calculate their cash burn rate and runway to manage any kind of unprecedented fund crisis due to reduction in consumption and Revenue. They have to ensure enough cash to ride out the situation with a proper plan and spending every penny with care.

As Darwin said those who survive are not the strongest or the most intelligent, but the most adaptable to change. So Founders have to adapt and take fast and decisive adjustments to changing circumstances.

## Supply Chain Disruption

- Ⓢ A lot of businesses are highly dependent on movement of goods and services. With inventories getting depleted day by day it is getting tough for many small businesses to operate and function on daily basis.
- Ⓢ Destruction of demand due to complete lockdown and social distancing has lead the economy come to a halt. Sectors like travel and hospitality, ride hailing, F&B, home services, co-living, student housing, food delivery, co-working & sports etc. all are facing a tough patch. According to the survey by Institute of Supply Management nearly 80% of the overall industries are impacted.
- Ⓢ Industries highly dependent on the Chinese imports such as consumer electronics, automobiles and pharmaceuticals are highly effected. Complete shutdown in operations and manufacturing will have a turmoil results in the upcoming quarter.

## Sales Forecast

- Ⓢ There will be a drastic change in the spending habits of the consumers. Businesses need to track the direct or indirect impact on the sales and take essential measures to combat the situation. Experts have claimed that the new coronavirus economy is a gigantic experiment which will reshape how we work and live.
- Ⓢ Lockdowns will change the habits of people around the world and some of these habits will stick. Online business creating a positive ecosystem can be a major threat to the brick and mortar. Many business practices who have seen slow adoption due to behavioural inertia have seen speed adoption during these pandemic days. Telework, Edutech and online streaming have been replacing movie theatres, schools and traditional

workplaces. Stickiness and an opportunity for a world where the shift from real to virtual suddenly has gone into overdrive can be a fearful situation for many startups.

- Ⓢ According to The Washington Post “American businesses have always seen scars after national trauma, World war II gave an entrance for women into the workforce, devastating fires spawned major factory regulations etc. Analysts say the novel coronavirus pandemic could push broad societal shifts along the lines of the Great Recession in 2008, with industry-wide disruption and a new normal for economic change.”

As it is said that every Dark night has a Beautiful Dawn! Therefore, these factors are very important and founders should be ready pulling up their socks to adapt these consumer behaviours and pattern of consumption.

## Layoffs and Job Cuts

- Ⓢ Due to complete shutdown many companies have already started cutting the Jobs. It is estimated that new hiring will also reduce down by about 30%.
- Ⓢ Reduced demands have a major impact on sectors like aviation, hospitality etc. These industries are more likely to cut their cost post Covid-19. The situation will sharply effect the revenue thus resulting into major job cutting.
- Ⓢ Seed stage startups will face a thrust to keep up their daily operations along with managing huge employee cost if it fails to leverage in the hard times. New hiring's will even see a major decline post pandemic.

## Concluding Thoughts

- Ⓒ In spite of all these negative aspects few sectors like e-pharmacies, online education, grocery delivery, gaming, live streaming and OTT platforms are enjoying positive tailwinds. These crises can do what demonetisation did for fintech players. Companies with strong fundamentals will surely survive with some necessary support from their investors, but companies with short runway and high cash burn will see existential challenges.
- Ⓒ It's a harsh reality that there is a tough path ahead but we have seen in history that some of the most iconic companies were formed during the surreal times. Apple and Microsoft was founded during the 1970s recession. Uber, Slack, Dominos, WhatsApp, Amazon, Netflix, Groupon etc. have seen a dream path post 2008 financial crisis.

As it is said that “Never let a serious crisis go to Waste” so founders should focus on the positive side and try to build something which generations will never forget. We don't know how long will this last, but one thing we do know is that founders with their amazing leadership capabilities, tough decisions and focused execution can ride out from all storms even the perfect and the dangerous one.

\*\*\*\*\*