Media Release Contact:
Tatiana Stead, 703.720.2352
tatiana.stead@capitalone.com

With a Slowdown in Investment Deals, Tech Startups are Advised to Cut Expenses and Plan for the Long Term

Over 57% of tech startups have altered fundraising plans due to the current dealmaking environment

SAN FRANCISCO. Calif., April 28, 2016 **–** With headlines warning of a slowdown in funding for startups and discussions in Silicon Valley about a growing sense of caution among venture capitalists, the second Capital One Growth Ventures *Startup Barometer* focuses on how technology startups are faring and the steps they are taking to ensure their long-term success. The *Startup Barometer* is a semi-annual survey of technology startup business owners and decision-makers that highlights key questions and challenges facing many entrepreneurs today. The survey, completed in March 2016, examined how startup companies are growing and their views on the current dealmaking environment.

According to *Bloomberg*, the first quarter of 2016 saw the fewest venture deals in four years, with a 12 percent decline in funding rounds since the fourth quarter of 2015. Growing caution among venture capitalists has resulted in a decline in the number of investment deals for seed-stage startups as well as the number of $100 million+ “mega” deals in the United States.

“Some recent IPOs also have had a challenging go of it, which has forced many startups to scale back their ambitions and accept more strict terms from investors,” said Capital One Growth Ventures Managing Partner Jaidev Shergill. “Despite all of the hyperbolic headlines about the long-term impact on the tech industry, there is still a lot of money available on the sidelines as investors play the waiting game to see where valuations stabilize. Out of necessity, VC firms are becoming more selective about where they invest, but the most promising and innovative startups will continue to be rewarded. A challenging economic climate can prove to be fertile ground for great companies who take a 360-degree view of their business and plan for the long term.”

The *Startup Barometer* found that most startup owners and decision-makers believe that it is still a positive environment for raising funds. According to the findings, nearly two thirds (64.7 percent) of the entrepreneurs surveyed cited sufficient interest and available funding from investors. Only 16.7 percent of respondents consider the current fundraising climate difficult and reported struggling to raise the funds they need, while the remainder did not sense a major shift in the environment, positive or negative.

Adjusting for the Environment

While most of the startup owners and decision-makers surveyed view it as a positive time to find interested investors, more than half (57.3 percent) have altered their fundraising plans as a result of the current environment. Nearly one third (31.3 percent) reported that they have raised – or plan to raise – a smaller round due to the current economic and fundraising climate, while another 12.7 percent have decided to delay fundraising and 13.3 percent accelerated their plans.

Tech startups often rely on their board members for guidance on a range of financial matters, including fundraising and budgeting. According to the survey, two in five (40.7 percent) startup owners and decision-makers have been advised by their boards to make budgetary cuts or to decrease their company's expenses at some point over the past six months.

"It takes time for startups to find their footing as businesses and determine how best to allocate often-limited funds, particularly with all of the competing demands on resources as you're trying to develop a product and grow a team," said Shergill. "By working closely with knowledgeable advisors – whether it is a team of strategic investors or members of the board – tech startups can learn how to avoid some common pitfalls, particularly at a time when VCs are making fewer investments."

Tech Startups Seeking Product Development Skills

In keeping with the findings of the fall 2015 *Startup Barometer*, the vast majority (80.7 percent) of tech startups plan to hire additional employees in the next six months. When asked what skill sets they are seeking in prospective employees, 86.8 percent are seeking out individuals who can contribute strong product development skills, while 65.3 percent will look for individuals with analytics and data science expertise. While most startup CEOs and decision-makers are focusing on technical talent who can ensure companies have strong products and services to present to investors, approximately three in five (61.2 percent) also plan to recruit and hire employees who can contribute marketing and communication skills.

Customer Feedback Drives Innovation

Given that a strong product or service is essential for any tech startup's success, the *Startup Barometer* asked startup owners and decision-makers how they go about driving product innovation in their companies. The survey found that gathering customer feedback (73.3 percent) is the most common way tech startups go about generating new ideas and improving an existing product, followed by dedicating time for employees to innovate and collaborate (57.3 percent). More than half (54.7 percent) also rely on product testing with focus groups to drive innovation.

"Seeing innovation in action is what makes our work as strategic investors so exciting and rewarding," said Lauren Connolley, venture partner at Capital One Growth Ventures. "The innovation process varies widely from startup to startup, but customer feedback and testing are always a core component of the process. When Capital One Growth Ventures partners with a startup, we help serve as a conduit to teams all across the company. Startups are able to explore potential use cases side by side with Capital One teams, gather useful feedback, and test the possibilities of their product in dynamic environment."

Putting Plans in Place

No matter the industry or the current dealmaking environment, investors look for a comprehensive and well-articulated business plan when deciding whether or not to take on a startup company. According to the survey findings, more than two thirds (68.7 percent) of startup owners and decision-makers have a business plan in place for their company, and more than one quarter (26.7 percent) reported that they are currently working on one.

Among those who have a business plan, nearly all include a clear mission or value statement (95.1 percent), a description of the product and how the company is differentiated in the market (83.5 percent), as well as a marketing plan and goals (79.6 percent). Tech startups were far less likely to have a cash flow statement and revenue projections (51.4 percent), which are important factors for venture capitalists to consider when deciding whether or not to invest.

"It can be challenging for a startup CEO to commit a financial plan to paper when the early stages of a business can be so unpredictable and daunting," said Connolley. "While a cash flow statement and revenue projections in a business plan may not always be 'perfect,' it is helpful for investors to see that a startup team is thinking ahead and that they are considering the right factors when devising a financial plan."

Additional highlights from the 2016 *Startup Barometer* include:

- Most tech business owners and decision-makers expect investors to provide commercial relationships and financing (61.3 percent), as well as useful connections to a broader network of industry leaders and experts (52.0 percent).

- The *Startup Barometer* found that 62.0 percent of tech startups surveyed have a dedicated team member(s) who manages marketing, while 20.7 percent have a dedicated team member in addition to working with an outside firm to manage all marketing and communications needs.

- When asked what resource would be most valuable to help startups take their company to the next level, more than one quarter (28.0 percent) said technical advice/counsel, 20.7 percent said additional talent, and 20.0 percent said funding.

**

Survey Methodology
The findings reported in this release are from a survey conducted by the opinion research firm, Survey Sampling International (SSI), global provider of data solutions and technology. SSI interviewed a sample of 150 decision-makers (including CEOs, CIOs, COOs, owners and presidents) from for-profit technology startups in the U.S. Technology startups are defined as those that have been in business for 5 years or less and meet a set of industry- and product-specific criteria. The survey was conducted online from February 25, 2016 – March 9, 2016. Online surveying was conducted using SSI's online sample.

About Capital One Growth Ventures
Capital One Growth Ventures (COGV) is the venture investing arm of Capital One, with offices in San Francisco and New York. COGV invests across data, security, payments, and financial technology, and seeks opportunities to build unique strategic relationships that benefit both startups and Capital One customers.