

LIFE AFTER COVID-19 FOR STARTUPS?!

Covid-19 has shaken up the old and new economy equally – world citizens have adapted to isolation quickly. However, this virus has taken corporations and startups on the wrong foot. All business is going through an intensive learning and out-side box thinking is critical for survival.

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Covid-19 – Key Facts

213 Countries and Territories around the world have reported, by mid of June 2020, more than seven million cases of the coronavirus Covid-19 that is believed to be originated from Wuhan, China, and a death toll of above 400 thousand - and all this within a matter of weeks.

This outbreak of coronavirus is one of the scariest tragedies the human race has ever faced and is exacting a terrible human toll and menacing the world economy. The world's topmost economies including the US, China, Russia, UK, Germany, France and Japan are forecasted to shrink by 7-15% in 2020. China's industrial output dropped 13.5% in January and February while retail sales decreased by 20.5% year-on-year. UK Economy contracted by 25% alone in April this year. OECD estimates the global economy to decrease by 11% in this year meaning estimated a total loss of 1 trillion USD. International Labour Organization of United Nations estimates the job losses to be more than 195m worldwide and the lockdown has forced the crash of oil prices lower than ever in the history.

Dramatic impact on industrial production, sales, investment are resulting in the world trade below by 19 percent. IATA, an association of worldwide airlines, believes the airline industry will lose \$84 billion in 2020 and \$15.8 billion in 2021— or close to a combined \$100 billion over two years and anticipates the airline industry will return to profitability in 2022. Globally 41% of startups are estimated to have been severely impacted. As per a recent Bitkom survey, 47% of startups are facing a battle of survival.

So in summary, Covid-19 has shaken up the complete economy; old and new, in an unprecedented manner. There has been broadly, I believe, unfair criticism by some governments, of WHO handling the Covid situation. One is to consider WHO is largely dependent on receiving the data from individual governments and institutes. Furthermore, no one knows how worse the situation might have been without WHO involvement and their articulation of the situation. Extremely depressive picture that has resulted in a worldwide lockdown and, although there is a around-the-clock efforts happening in finding cure to the disease, no one is willing to commit availability and date for an effective vaccine.

Luckily, there are certain governments and companies that have listened to the market warnings and reactions and have adapted to the situations well. The

companies work towards reshuffling their production lines, stretching their brands, and catering to new needs in the market. Many companies are facing lower revenue generation resulting in less cash flow. Cash is the KING again! Companies are also considering accelerating digital transformations as the sudden shift to remote working has revealed a gap in IT infrastructure and digital up-skilling.

Nevertheless, some companies are still grappling to establish themselves post-pandemic and others are preparing themselves beyond the coronavirus. Risk analysis and mitigation is on the agenda of the management of the companies. They are also advised to protect profitability through actions such as scenario planning, financial exercises to improve resiliency and set into effect models that integrate within its plans the economic effects of past pandemics.

The World Economic Forum suggests, supporting small and medium enterprises and larger businesses is crucial for maintaining employment and financial stability of the global economy. Therefore, along with effective and clear communication, broad monetary and fiscal stimuli will be required to be co-ordinated on the international scale for maximal impact and boost the recovery process.

The European Commission has laid out its vision for post-pandemic recovery funds, and it is worth 1.85 trillion euros. The plan relies on both the long-term EU budget (2021-27) and a special recovery fund. Similarly, US Fed has enacted three separate relief packages of \$2 trillion. Japan announced a relief package of 13 trillion Japanese Yen (1 trillion Euro) for its economy. China has so far refrained from giving money directly to its people. Just in case you are looking for some good news then here it is – New Zealand seems to become the first country having no new infection of Covid-19 over several weeks - so there is a light at the end of the tunnel - even without a Vaccine.

Some good news is also from The International Energy Agency, as per update of 30 April 2020, which has forecast the CO2 impact of the crisis, suggesting emissions could fall by 8% this year. This is an incredible improvement in getting cleaner air in our lungs that we need in spite of having the masks on!

Covid-19 and Startups

Startup Genome is on the top research and policy advisory organizations that operates across five continents in 38 countries to date. Startup Genome launched the world's first global startup survey on the topic <https://startupgenome.com/reports/global-funding-impact-covid-19-startup-ecosystems>. The well thought out survey covered several aspects including capital, market and the talent. Key findings from this global survey analysis are:

Capital

41% of startups globally are threatened in what Genome calls “red zone”: they have three months or less of cash runway left. Many very young startups live with only a few months in cash—29% were in that situation already before the crisis—but the crisis put 40% more of them in that precarious position. Focusing on startups that have raised Series A, B, or later rounds, 34% have less than 6 months worth of cash — a danger zone in the current situation where fundraising is difficult.

The startups that had a term sheet before the onset of the crisis, nearly 20% have had the term sheet pulled by the investor, and 53% have seen the process slow down significantly or have faced an unresponsive lead investor. Only 27% have either had the process continue normally or secured the funds.

Talent and Jobs

Since the beginning of the crisis 74% of startups have had to terminate full-time employees. 39% of all startups had to lay off 20% or more of their staff, and 26% had to let go 60% of employees or more.

If you break down the share of startups that had to terminate full-time employees by the top three continents for startup activity, North America is the place with the biggest share of companies reducing headcount (84%), followed by Europe (67%) and Asia (59%).

Market

74% of the startups saw their revenues decline since the beginning of the crisis. The most common type of change in revenue is a relatively modest decline. However, a sizable share of companies was severely hit: 16% of the startups saw their revenue drop by more than 80%. A major reason for the drops in revenue come from the effect of the crisis on industries those startups serve. Three out of every four startups work in industries severely affected by the Covid-19 crisis.

At the same time, a small minority of companies are actually experiencing growth. 12% of startups have seen their revenue increase by 10 percent or more since the beginning of the crisis, and one out of every 10 startups are in industries actually experiencing growth. Every crisis creates opportunities. For instance, over half of Fortune 500 companies started during a contraction, and over 50 unicorns were created in the Great Recession alone, as Startup Genome data shows. The Covid-19 crisis is no exception!

The hurt and the growth are not evenly distributed. On the positive side, B2C startups are about three times more likely to be in industries experiencing growth in the face of the Covid-19 crisis when compared to B2B startups. On the negative side, B2B startups serving Large Enterprise clients are more likely to be in industries adversely affected by the crisis than both B2B startups serving Small and Medium Enterprises and B2C startups; and are the least likely to be experiencing an increase in sales.

Nonetheless, technology startups are uniquely situated to continue operating even in lockdown scenarios.

European Startup Scene

Startups also across Europe, have been hit by Covid-19 pandemic. Sifted, (<https://sifted.eu>) that is backed by the Financial Times, is about in-depth reporting on Startup scene in Europe for European Startup - has teamed up with a group of the UK's most prominent VC firms to gather further data about the impact Covid-19 is having on the Startup portfolio in Europe. 750 companies were contacted,

200 replied. They were quizzed on the toll Covid-19 is taking on various aspects of their business, from hiring to advertising spend to fundraising plans.

Below are the key findings of this survey:

- About 60% have successfully renegotiated their workspace rent or are in the process of doing so.
- About 50% of startups have put staff on temporary leave and 30% of startups have cut salaries across the company by at least 15%.
- 48% of respondents have frozen hiring another 32% have slowed hiring. Some companies experiencing boom due to the crisis are hiring more than planned.
- 60% expect full year revenues to drop more than 25%.
- About 43% have stopped online advertising
- Interestingly 33% do not believe they would qualify for any loan or relief package
- 41% are considering venture debt.
- Startups have two key concerns – how to best look after and manage teams during lockdown, and how to manage cash flow during the downturn.

Winners & Losers

We will continue discussing the way out of this pandemic darkness and how our economic and social landscape will change in coming months and years – if not for ever.

In the short term, we see some clear winners and losers out of this crisis. Home exercise, home delivery, eSports, distance education, e-commerce, teleconferencing, streaming entertainment are just some of the success stories. The losers include live sports and music, theatre, art, traditional retail, travel and transportation, hospitality and restaurants.

The transition to “online everything” has been accelerated dramatically. This supports eCommerce, eGovernment, eSports - and most of the concepts starting

with “e”. This sounds like good news for Cloud Solutions providers that support online services.

Good companies mostly emerge out of recessions. More than 50 tech unicorns were founded during the recessionary years of 2007-09. Over half the companies on the Fortune 500 were founded during a recession or bear market. In difficult moments, consumers generally focus on their more basic needs: health, wellness and security. Startups may need to change their business strategy to reflect consumers’ preferences as the world recovers from the coronavirus.

Global downloads of Skype, Houseparty and Zoom all surged by more than 100 percent in March, with the latter proving particularly popular among people meeting up virtually while being confined to their homes. Zoom was downloaded nearly 27 million times in March, up from just 2.1 million times in January.

In the sports world, although events have been cancelled, we now know that fans are also interested in watching eSports. Live streaming of eSports in Italy grew 66% between February and March. According to Twitch Tracker, games streaming has experienced a global explosion in popularity. This increase will include a large number of new eSports fans who are likely to continue as fans at a lower level. These fans are typically younger and can bring new blood to traditional sports clubs.

At the moment, videogames are disconnected from traditional sports. Sports clubs have an interest to bring videogames and live sports together. A recent example is the announcement that Formula One is running The Virtual Grand Prix Series featuring current 2020 F1 drivers alongside champions from eSports and other sports personalities. Also, top-tier Mexican soccer league, Liga MX has launched a FIFA tournament for its players to compete against each other in the popular soccer video game. The eLigaMX by BBVA Tournament will start and be shown on TUDN in the U.S. There could be a bright future for clubs which engage their fans by merging physical attendance at matches with virtual experiences. Perhaps the sports stars of the future will have virtual avatars who can play in virtual teams to entertain fans when they cannot be at the stadium.

Being a fan is about the sense of community with the club and the other fans. We have seen how home workout classes delivered virtually have their own sense of community. Nike has launched its campaign “*Play inside, play for the world*” to encourage people to exercise indoors. This has had a great impact, with

participation by many sports celebrities. The subscription-based service includes studio-style streaming workouts, progressive training programs and expert tips from Nike Master trainers. It may not be the same as going to the gym or a training session with your club but it has value.

In the long run, sports clubs will want to provide more virtual experiences to build community with international fans who have less opportunity to attend matches. The frequency of virtual events is likely to increase. And they can use their famous players to increase the excitement and desire to participate. Sports clubs could sponsor the development of videoconferencing and chat applications better suited to virtual sports events. Who knows what features sports fans want?

The sports industry can learn a lot from the start-up mentality to rebound. Focus and togetherness will be key. The industry will need to adapt, innovate and change to rebuild. “Every storm is followed by a rainbow” and there has never been a better time to learn, plan and think ahead. There is so much already changing around us and new opportunities for all to contemplate.

Investors and Venture Capital

Looking at this crisis from investors perspective – it is a nightmare after the financial crisis of 2008! As a result, the investors are occupied with the existing portfolio and it will be hard to attract investors in new projects – at least in coming months. Therefore, the new startups should use this time wisely and intelligently - and bring a long and deep breath for survival in coming months. Startups were taught to be short-minded, to overhype, and to deliver revenue. Some of these companies burn cash within one year just to get to the next round of investment.

Thus, the businesses may prioritize fundraising and unhealthy metrics over true innovation and value creation. Many people believe that the system is broken because raising a successful series A round depends solely on finding one lead investor.

And therefore, an alternate option is fixing the capital size based on the milestones. The ambition of making 9x in three years should be questioned vs 3x in one year.

The question is if over the long term, investors and founders should capitalize on creating value, rather than on creating hype and betting on speculation. The new data, which was collected from an estimated 9.8 billion mobile phones, 2,200

satellites and more than 25 billion other digital sensors worldwide – are documenting the radical shifts in social and economic activities happening in response to the coronavirus pandemic. People are significantly changing their behavior, and the impacts are not affecting everyone equally.

Dealing with big data and analytics, finding smart content, and developing solutions based on AI, IoT, 5G and Blockchain technologies are the areas that will take our attention as well as of investors in coming months and years. The blockchain technology is specifically coming back to the conversation, due to governmental privacy control dynamics in many countries and numerous conspiracy theories resulting from the pandemic. Ironically, the investors and VCs will be looking desperately for overhyped startups that can potentially make 10x ROIs within several years in these technologies.

Out-of-box thinking is needed

There is no doubt that Covid-19 and the lockdowns have taken the large corporations as much as with surprise as the startup communities. Regardless of how mature and big an enterprise is, everyone has been going through the process of finding facts and solutions and adapting to the new situation as quickly as possible. The startups as well as other enterprises are all together in this learning process. This is also the time particularly for a out-of-box thinking and taking extraordinary measure as we have extraordinary situation.

Below are some ideas for startups to consider

- It is probably high time to join your peers for information exchange and best practices. Team up with other startups, individuals, forums and organizations so you can better leverage the available resources.
- Find mentors to reflect, discuss, and stimulate new ideas.
- Explore and consider co-operations rather than working on your own and silos.
- Do not stop sales activities – use online, webinars, podcast, social networks to reach out to your prospects and clients.
- Offer your advice beyond your product or service – think how you can bring higher value to the targeted audience.

- Consider what can be your contribution to the fight of the Covid-19
- In view of the fact that startups have become the number one engine of job creation in our modern economies, it is imperative for governments and business leaders to learn what can be done with each other and act in a concerted fashion. Fortunately, almost all governments have announced special relief packages for startups who are impacted.

In a most recent development in Germany, the government has announced a Euro 2b package for Startups. At the end of this article there are some links to what UK and German governments have announced about supporting Startups. Evaluate seriously taking advantage of such relief programs announced regionally and nationally.

Eurostartup suggests eight additional ideas for startups to consider in and post-Covid-19 situation (see the links)

Links

<https://www.weforum.org>

<https://www.pwc.de/de/startups/financial-support-during-the-covid-19-crisis.pdfs>

<https://www.computerweekly.com/news/252481853/UK-government-announces-Future-Fund-to-support-startups-during-Covid-19>

<https://www.eu-startups.com/2020/03/8-ideas-for-startups-to-give-back-in-the-time-of-coronavirus/>

<https://de.finance.yahoo.com/nachrichten/corona-krise-2-milliarden-euro-140000081.html?guccounter=1>