



TROVATA

GUIDE

The Startup Recession SURVIVAL GUIDE

Best Cash Flow Management Practices &
Growth Drivers Every Founder Should Know



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Introduction

For startups, the difference between 2021 and 2023 is like night and day. In 2021, we saw venture funding increase [nearly 100%](#) from 2020. Startups were growing at unprecedented rates, and valuations were bursting through the roof.

Then, in spring 2022, everything came to a screeching halt.

What happened?

Well, reality set in. As startups failed to account for changes in consumer behavior or were overly optimistic about the speed at which the post-pandemic economy would recover, all this rapid growth proved unsustainable.

Combine that with widespread, ongoing predictions of recession, and the mass layoffs we've seen recently, it all starts to make sense.

From VCs, we've seen a shift in attitude from caring about growth projections to caring more about profitability. This means startup founders and CFOs have to change their approach.

In this guide, we'll uncover the six most essential ways your startup can survive - even thrive - during a recession.

Focus on the Fundamentals

First things first: startups searching for funding in 2023 will have to prioritize substance over hype. You need strong fundamentals.

In a [Relay thread](#) titled, “No One is Coming to Save Us, The Need to Reestablish PMF and Other Earnest Founder Commits for 2023,” Rand Fishkin, the founder of Founder of the leading SEO tool, Moz, and now Co-Founder and CEO of SparkToro, said it best:

“ A startup will be successful, if it solves a real, non-speculative problem, in a field few others are trying to tackle, with an approach that’s straightforward and easy to understand/explain. ”

– Rand Fishkin, CEO of SparkToro

This means having a solid product-market fit, and that means being able to tell a story: specifically, your ideal client’s story. What’s their issue, and how is your product going to help them? What makes your service a preferable alternative to others in the same space?

These are just a few of the questions you need to answer to ensure your value proposition is laser-focused.

Do some field research, too: now’s a great time to “hit the road” and open a dialogue with current customers (even if only through Zoom).

Remain Flexible

At the same time, you'll want to iterate your service. As markets alter, you may need to speak to different pain points. Ask clients what their concerns are - does your product still solve an immediate problem, or has the situation changed?

If there's one thing we do want to take from the 2021 world of startups, it's lean methodology. This is where MVPs are tweaked based on customer reactions until they're the best market fit they can be.

Aim for Sustainable Growth Over “Growth at Any Cost”

“Growth at any cost” was the maxim of many startups in 2021. But, as we've seen, it didn't always work out well for them.

That's because this approach is inherently flawed. **“Growth at any cost” means acquiring customers who may not have a high lifetime value.** This is inefficient for businesses in general, but also the last thing you want during a downturn, when it's critical to have solid cash flow.

Peloton, the fitness bike manufacturer, is a great example of this. In 2020 Peloton was the king of unicorns, reaching a \$50 billion market cap. But this success was owed mainly to pandemic lockdowns - the company didn't account for how people might not be so interested in working out at home once quarantine ended.

As a result, Peloton had to lay off [5,000 employees](#) in 2022 and stock prices have plummeted well below IPO. Simply put, they grew, but they didn't grow sustainably. Don't make the same mistake - to avoid valuation loss and layoffs going forward, startups must focus on sustainable growth.

Sustainable growth means paying attention to unit economics. The two most important metrics here are lifetime value (LTV) and customer acquisition cost (CAC).

Combined, we get the lifetime value/customer acquisition cost ratio. Use this formula to tell you if you're paying too much to acquire customers - you'll want the result to be at least 3:1.

The second thing you need to build sustainably is a clear view of [cash flow](#). You need to know where liquidity's going, and whether or not that allocation is driving high ROI. You need a financial operating plan.



[Brett Turner](#), Founder and CEO of Trovata, has raised over \$100M in equity and venture debt financing while helping create over \$500M in shareholder value across his last three roles as a startup Co-Founder and CFO.

So, in [a recent episode of The Fintech Corner](#), he shared that from his experience, navigating several recessions in the past,

“ A financial operating plan has always been essential. A good one will add more arrows to your quiver. It gives you options and more clarity. ”

Like most founders, Brett’s an optimist, saying he’s “hopeful about all the things that we’re going to deliver,” but “you need capital to be able to work through that process.” This means creating a budget and adhering to it.

Of course, you don’t always need to spend exactly according to the blueprint. Without a financial operating plan, however, “you’re kind of winging it in some ways,” Brett says.

When you have a solid operating plan, you exude confidence, and this confidence spreads to your employees and co-workers. An attitude of panic doesn’t get the chance to set in, no matter what’s happening with other startups.

Fortify Your Work Culture

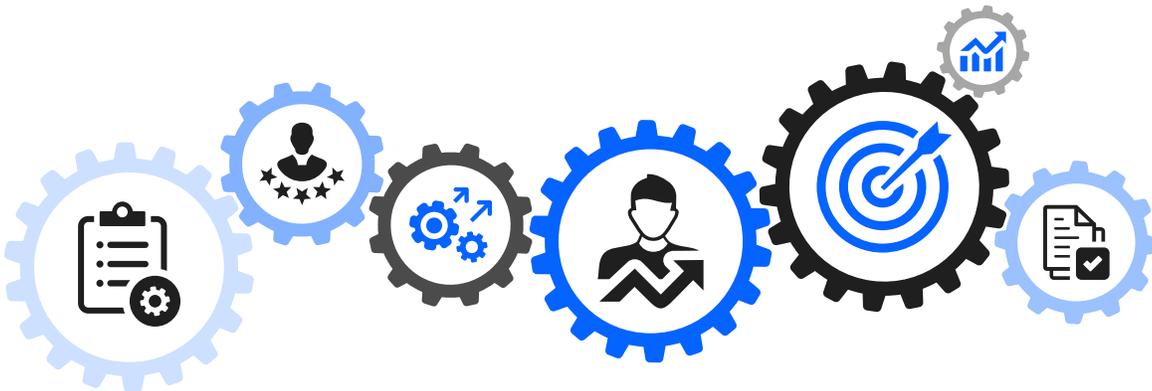


Don't underestimate the importance of a solid work culture and chemistry between employees, especially in a downturn. Look at it this way: when a team's winning, nobody wonders about the dynamic in the locker room. Only during the tough times do some of those issues come to the surface, and "teams just start to fall apart," says Brett.

In this time of high anxiety, it's important to effectively communicate what steps you plan to take to your team. If you have a solid financial operating plan and it doesn't necessitate layoffs, communicate it to your team so they can feel safe. If you do need to issue layoffs, make sure to be thoughtful and explain your line of thinking, keeping transparency and visibility open so you don't erode the trust you have with your employees.

Don't forget that dialogue goes beyond your immediate team - now's also a great time to build relationships with other companies in your industry. Disruption is not always the best idea, after all. Trovata learned this by partnering with banks like Wells Fargo and JP Morgan Chase rather than trying to go around them, as many other fintech apps do. Having well-established institutions by your side is yet another way to de-risk your startup.

Also, remember that recessions are the best time to acquire new talent, so keep a lookout. You'll need to play defense, too, as employees may be tempted to move to other companies. You can do this by solidifying your work culture. To feel fulfilled, team members need to understand your value proposition just as well as clients - if not better. Additionally, consider offering benefits like stock option grants to your top employees.



Extend Your Cash Runway

The one good thing about the recession that's probably coming? We know about it in advance. Take advantage of this by extending your cash runway now and buy yourself more time to build up revenue/ARR - this is exactly what many VCs are advising their portfolio companies to do.

Two Ways to Extend Your Cash Runway:

- 1) Get access to more funding
- 2) Reduce cash burn

How to Access Funding

Internal investors are your best bet during a recession. They know your product, want it to succeed, and can use their experience to suggest ideas going forward. They might also have connections to other investors they can bring on board.

Now's the time to nurture relationships with internal investors. Keep them updated with frequent meetings, and see if you can get rounds from them now - you don't want to be in the middle of financing rounds when a recession strikes.

When looking at external investors, you're going to need metrics showing revenue, or at least a clear path to revenue. Look for

investors who have funded companies similar to yours - after all, you're more likely to be funded by VCs who truly believe in what you have to offer.

Don't worry so much about valuations, at least not right now. Overinflated valuations were part of the problem, so VC firms are being cautious. Rather, you want to set a valuation that you can [grow into](#) within a reasonable amount of time. This way, you don't risk down rounds.

Sometimes, a line of credit may be worth it. However, do everything you can to lengthen your cash runway without cutting into revenue before taking out a loan. If you do go the loan route, keep in mind it can take months to get approved, so plan out cash flow to ensure you have enough breathing room.

Of course, the best source of funding right now will be revenue.

If you can boost that, other sources will follow. Use analytics to prepare solid, data-rich forecasts that can illustrate a clear path to revenue to investors.

How to Reduce Cash Burn

Your [cash burn rate](#) is directly related to the length of your runway - the higher it is, the shorter your runway.

Do a thorough assessment of all your expenses and figure out where you can cut costs without lowering revenue. Here are just a few ways:

Cut Back on the Nice-to-Haves

Perhaps the big, open floor office space is a key part of your startup vision, but honestly, ask yourself: “Do I need this right now?” Shifting to remote work and offering your employees access to a coworking space might suffice instead. Make sure to get solidly on the road to turning a profit before you invest in some of these “nice-to-haves.”

Additionally, you could be subscribed to SaaS platforms and tools that you’re not even using or packages that have more features than you need. Consider unsubscribing or downgrading.

Evaluate Marketing Spend

Another money drain? Investing in marketing channels that aren’t driving sales. To find out which ones, use the LTV/CAC ratio, entering amounts specific to the channel you’re evaluating.

Coming up short? Cut that channel.

For example, if you're spending a lot of money to test out and optimize paid ad campaigns, consider putting them on pause. The average CPC (cost-per-click) is ballooning, as paid ads become increasingly popular and the platforms themselves are driving up their bid prices to meet their growth goals. Put short, ads will never cost you less, if anything they will always cost more. And you have to pay for each and every click, meaning they have a short shelf-life.

On the other hand, you can invest in organic, evergreen marketing content based on thought leadership and community-building efforts. This could be done by hosting events, in-person or virtually, such as round tables whereby you bring together experts and decision-makers from your target audience. Invite them to meet and discuss topics that are keeping them up at night and related to your business.

By making the space for them to gather and grow together, you build up your brand authority, provide value, and facilitate precious networking opportunities for prospects and your sales team. This is especially viable during a downturn, since if there's any time similar industries should compare notes, it's now!

The best part is that you can take the insights that came from the event and turn them into audio or written content for your website and social media, boosting your organic search engine rankings and inbound marketing channels.

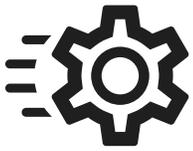
Re-Evaluate Your Payment Mix

Re-evaluating the way you make payments is another way to cut costs. [Real-time payments](#) (RTPs) are a new type of payment that fulfill the same purpose as wire transfers, but are much cheaper and faster.

In addition to RTPs, the [Trovata payments app](#) now offers bulk payments, which are similar to batch payments in that you can bundle payments together. **However, each automatic payment is made individually, which means you won't get charged bank fees.** This is also helpful for your reconciliation process, since each payment is made individually.

Cash Runway - The Bottom Line

Boosting your cash reserves is the most important thing you can do right now. Conserving and extending your runway will not only help your startup survive the downturn, but keep you from resorting to drastic measures such as layoffs. It also ensures your business will be in a stronger position than competitors who don't properly prepare for a recession, which could give you the opportunity to buy them.



Automate Cash Flow Management

Since cash is the lifeblood of any organization, don't wait until a downturn actually strikes - take action now and build a firm foundation for solid cash management. Trovata helps you do this by providing clear insight into transactions across all bank accounts - no more siloed data - and automating cash flow forecasts.

By growing to understand the rhythms of your business, machine learning and AI fortify these forecasts by improving their accuracy over time.

Deep analytics help you determine exactly where you're burning cash unnecessarily, and where you have idle cash that could be used to fuel the (right kind of) growth.

A cash flow management platform like [Trovata](#) saves your team lots of time - no more consolidating data from across a slew of bank portals, and no more scouring spreadsheets to reconcile errors.

Spotlight: CrowdStrike

For proof of how automation can help you manage your cash flow, look no further than [CrowdStrike](#). Over a the span of just a few years, this security tech firm grew rapidly, boosting revenue from around \$80 million to more than \$2 billion.

The only one problem? Transaction volume was outpacing their cash management workflow (in spreadsheets).

It would take CrowdStrike 40 hours a month to aggregate transactions. To speed things up, CrowdStrike turned to Trovata. With its library of [bank APIs](#), aggregation was almost immediate—the treasury team established real-time cash flow visibility with no involvement from the IT team.

“ We were able to view cash balances real-time, analyze weekly trends of the inflows and outflows...and make informed and data-backed decisions for managing cash and investments. ”

– Priti Kartik, CrowdStrike’s Treasury Director

CrowdStrike's Treasury Digital Transformation

Before Trovata	After Trovata
95% efforts in data collection, 5% in data analytics	100% efforts in data analysis; 0% in data collection
No ability to visualize cash	Advanced cash analytics for data-driven decisions
Reliance on human for error and fraud detection	Real time “anomalies” identification enabled catching erroneous bank fees
<u>Spreadsheet-driven cash forecasting</u>	<u>Machine learning + human intelligence backed cash forecasts</u>
Accounting spent ~40 hours per month on reporting; plus ~10 hrs to identify ZBA activities in statements, plus additional hours for manual daily reconciliation	Instant, automated reporting and effortless daily reconciliation

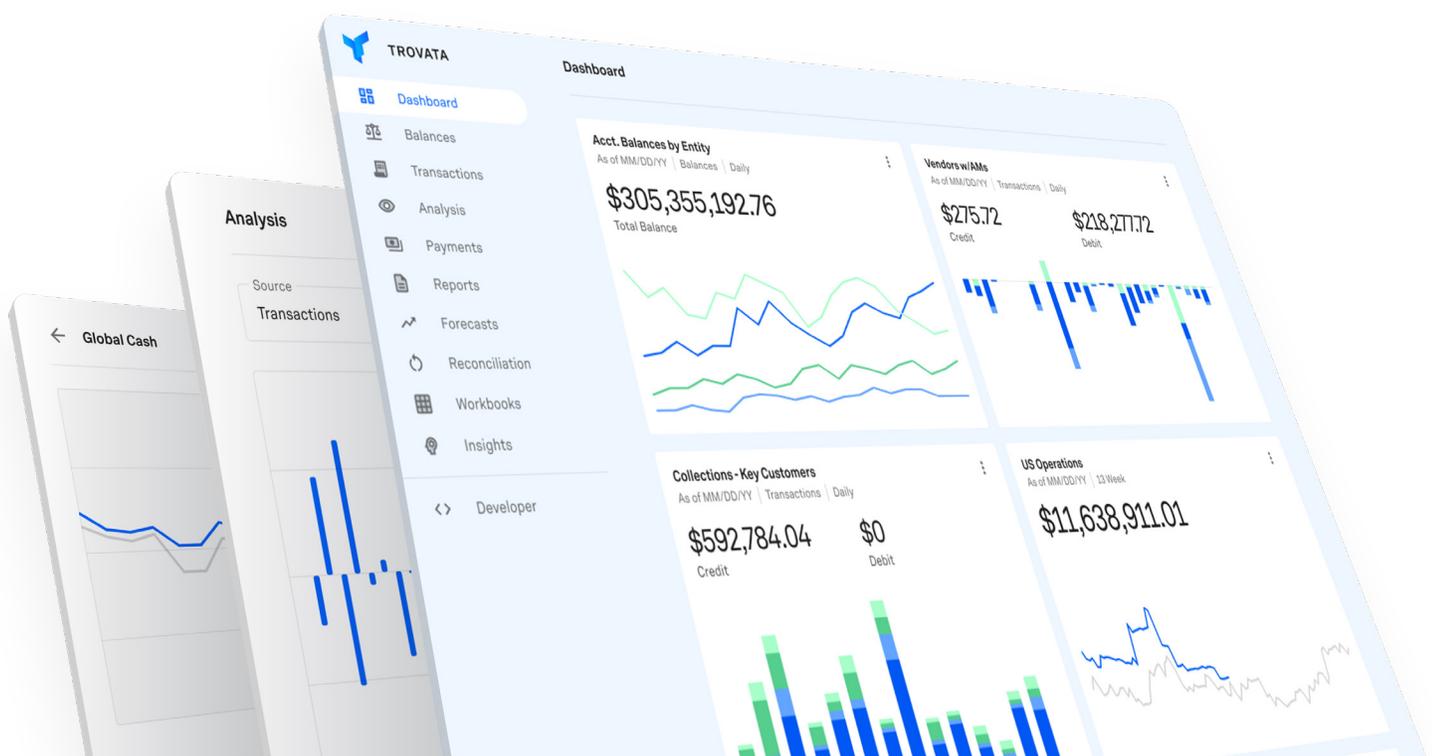
We're proud to say that, thanks to this transformation, CrowdStrike was the [runner-up](#) for digitization at the EuroFinance Treasury Excellence Awards in 2022.

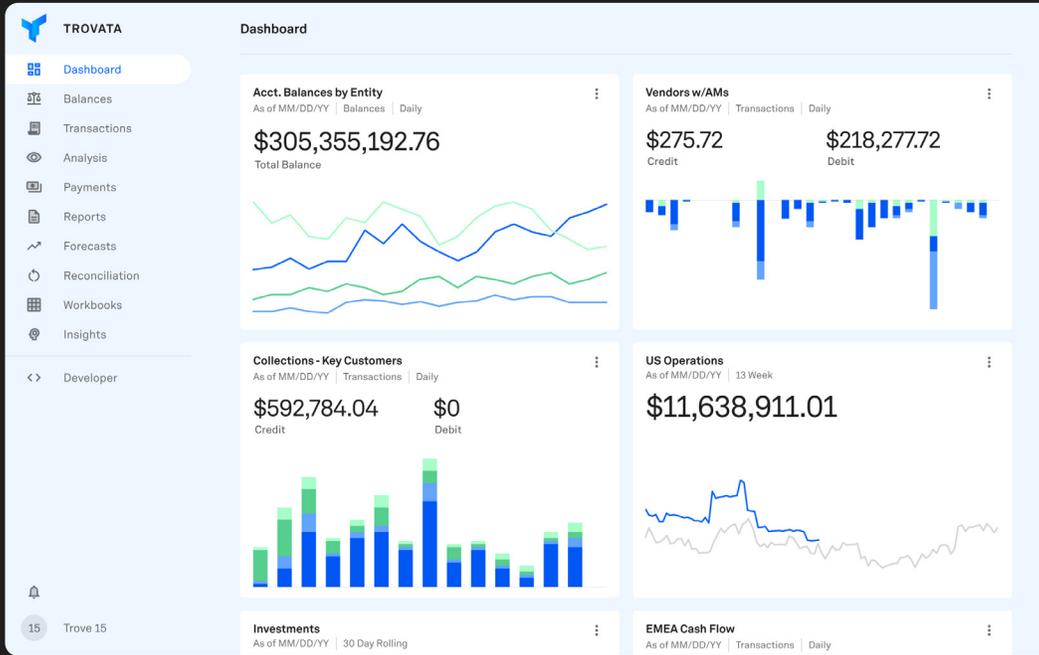
Solid Cash Flow Management Will Safeguard Your Startup

During a recession, cash is king. Cash won't only help your startup ride out the recession, but also stay flexible and respond to some of the unique opportunities presented by downturns. All this will put you in a much stronger position than potential competitors who might still be trying out "growth hacks."

And, fortunately, the two things that will get you through a recession - revenue and an extended cash runway - will open the doors to VC funding.

Both depend on proper cash management and accurate cash flow forecasting. Trovata makes these simpler and more reliable.





Gain total visibility into cash flows and extend your runway.

Explore for yourself to discover how managing cash is better with Trovata. Request a demo today.

[Get Demo](#)

