

Empowering Entrepreneurs to Succeed

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Seizing Opportunity in Ontario's Evolving Startup Ecosystem

Ontario has a vibrant startup ecosystem, with promising upstarts continually emerging from top incubators and accelerators. However, recent economic headwinds, interest rates and the ripples caused by certain upheavals in the startup financing space—such as the failure of Silicon Valley Bank—have cast uncertainty over the path for fledgling founders seeking funding and growth.

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Despite the challenges, industry veterans insist that opportunities remain strong for startups armed with sound business models, innovative solutions, and perseverance. With the right strategies, these companies can still rise above the turbulence to secure the capital and resources needed to scale.

Startup leaders, investors, and analysts continue to gauge the opportunities and hurdles facing Ontario's early-stage startups. Their insights reveal a road forward for entrepreneurs determined to thrive in this evolving landscape.

The New Funding Paradigm

Securing funding is naturally a critical step for any startup looking to grow and thrive in today's competitive business environment. After all, with the right investment, startups can secure the resources they need to develop and market their products, expand their operations, and attract top talent.

However, in the current economic climate, securing funding has become increasingly challenging. VCs are

looking for more established startups. Funding is more difficult to come by. In other words, founders need to have moved far past the idea stage for consideration. The bar for investment is much higher.

"A First-in [investor] isn't investing in a dream anymore," says Laura Lirette, General Manager of the Open People Network and the Supporters Fund; pillars within the startup community in Ontario. "As a startup, you have to have traction, you have to have proven that this is what the market wants. And, you have to prove to investors that you have revenue streams and the right team."

Sometimes founders try to secure funding before they have the right ducks in a row. They need to ask (and have answers to) the hard questions. For example, does the startup venture consist of more than an idea? How is the team addressing their customer's pain points? Are they building a vitamin or a painkiller? What problem are they solving, and what value are they bringing? How much research has the team done about product-market fit?

"The marketplace validation is the most important aspect of any early-stage company," says Angelo Del Duca of Angel Investors Durham. "There are many things that investors look for. They look at a business opportunity with a superior product. They want to know: Do they have a strong business model that investors understand? Is there a high growth potential? Does the startup have opportunities not only locally, but globally? And how strong are they relative to existing companies in the sector?"



"You must have a business model," adds Frank Auddino, Angel Investors Durham. "How does [the startup] make money? How are the investors going to make money? [Investors] want to see a sustainable, competitive advantage."

"Do they have intellectual property?" continues Angelo Del Duca. "Do they have a quality management team? Have they secured funding previously, and if so what was it used for? Did they achieve their objectives and the milestones that they set forward? Did they use the money wisely? What traction do they have in the marketplace? Do they have existing customers? Are there realistic and various exit opportunities to provide a liquidity event so investors can achieve a return on their investment?"

Despite the higher bar to secure funding, opportunities exist for those determined to succeed. Founders with solid business models, a strong team, and proven traction in the market-place are more likely to secure funding and resources to grow their businesses. In addition, startups need to be resilient to weather the ups and downs of the market.

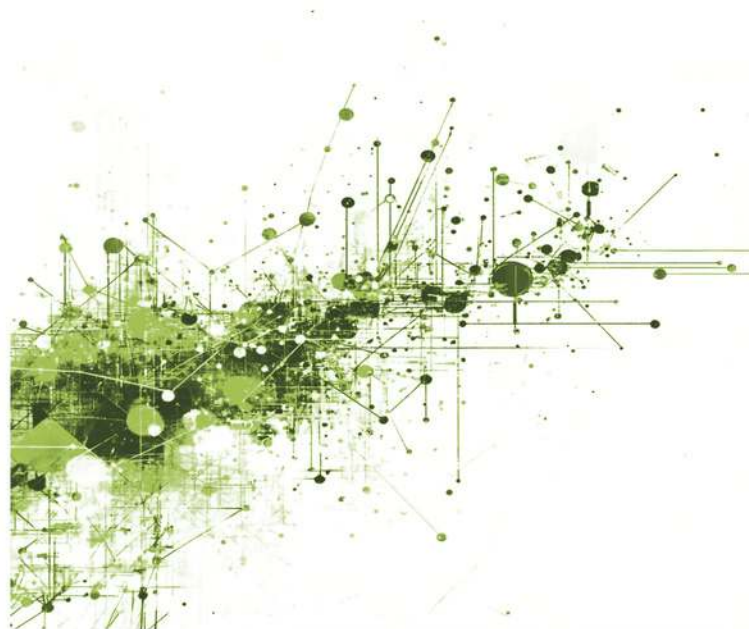
Are Startups Tough Enough?

Make no mistake, it is tough out there.

Funders are twitchy about market conditions arising from an underwhelming end to 2023. "Funding to Canadian startups declined by 57% to \$808 million in Q3 2023 from the previous quarter, per Tracxn's Geo Quarterly report," according to TechCrunch. "It's also 84% less than Canada's record fundraising quarter, Q2 2021 when startups collectively raised \$5.12 billion."

"I talked to [a client] who has started and exited 21 businesses," Laura Lirette recalls. "He said this was the worst he'd ever seen it. The ecosystem is pretty hard for them right now."

"The markets are currently super tough, and it seems



like they will remain so for another year or so," says David Kwok, Director, Entrepreneurship & Innovation at YSpace. "The interest rates are so high. They're expected to dip but who knows when. Companies that are bootstrapping and are dependent on loans have maxed out in terms of what they could do just because of how high the rates are."

Even so, there is still hope. The fact that things are tough doesn't mean startups are not getting funded. "Those who can figure out the customer acquisition model, revenue model, and profit-ability will make it out," Kwok continues. "Investors are looking at how profitable a business can be and whether it can generate enough revenue to overcome operational inefficiencies. We have recently seen a lot of big raises from big companies, but we also saw a lot of layoffs. It will continue to be tough, and we need to double down on getting our companies to focus on product-market fit and customer acquisition because customer revenue is always the top line."

Traction, Runway, and Hope

For many startups, securing funding can be crucial for growth and success. But it may not be the cure-all for the challenges that face today's burgeoning startups.

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"You have to do your homework on who you're pitching to and what their thesis is," recommends James Daigle, Director of Innovation and Entrepreneurship, at Treefrog Accelerator. "Gone are the days of thinking you can go and pitch ten angel companies. They're not taking in as many pitches. Ideas are a dime a dozen now. If this were a few years ago, people would throw money at AI or anything 'green'. Now investors need the startup to be further along to mitigate some of the risk."

Securing funding is not the only factor that determines a startup's success. Startups must also focus on their traction and runway. Traction refers to customer acquisition, revenue generation, and market validation. Runway refers to the amount of time a startup has before it runs out of cash.

"The approach to startup investment has changed in the last 2 - 3 years," continues Daigle. "Previously, investors wanted to have about 18 months of runway. But now investors are saying that startups need at least

two years of runway. Early seed investors generally make their money back in the next round, so it's important to know when that will be. The shift from 12-18 months to 24 months of runway is an interesting change in the investment landscape, and it's something to keep in mind when considering investment opportunities."

On the other hand, hope is also a definite asset. Without a healthy dose of optimism, even the most established startup founders will find it difficult to navigate the tough times.

Chris Kay, CEO of Multiplicity, and CEO & Managing Director of Kanata Ventures is definitely optimistic. He recently posted a blog to that end that has been gaining traction on Medium.com entitled *I'm Optimistic: My Thesis on Startups, Venture & Technology—Part 1*.

"There's a universal truth in venture capital: If you're building something remarkable, capital will find its way to you," Kay explains with a palpable energy. "I recently

had a portfolio company that had their funding round oversubscribed last year. In some cases, we're witnessing unprecedented levels of investment. This indicates that the issue isn't on the supply side of capital."

Something that hasn't changed: being a startup founder is hard work. "Everything in this space is challenging," says Kay. "It's challenging to acquire customers and raise cap-ital. It's like running a marathon.

But this is nothing new.

As a founder, if you're not will-ing to assume some risk and take some chances, then perhaps entrepreneurship isn't for you and you should be in insurance."

"I still think there's a lot of excitement," says David Kwok. "There are really early stage companies who are still trying to do some amazing things. It's our job along with Treefrog and everyone else in

the ecosystem to support them and help them understand how to best navigate this landscape. Starting a company five, or six years ago is different than today. There's also more support for underrepresented founders, which is great. So you have to determine if it's the right fit, do you want to give up equity for someone to make a product, or do you want to do it yourself?" "This isn't a dystopian venture market," continues Kay. "Standards are increasing, and rightly so. Yet, there's hope, especially with AI and technologies like ChatGPT, which enable you to build robust products rapidly. I'm excited about

what's coming."

Founders of today's startups need to focus on resilience, and that means establishing traction, carving out more runway, and keeping up hope. And have a hell of a lot of grit. If it were easy, everyone would do it, right? Laurie Baker, Executive Director of the Treefrog Accelerator notes that, "We're witnessing a recalibration of expectations for startup success. Founders are now being asked to operate not just as

innovators, but as cultural architects, building ventures that align with broader economic trends and societal values. The bar has been raised. Start-ups that thrive will demonstrate not only profitability but also a deep understanding of their role in a complex, interconnected global economy."

Regardless of any doom and gloom in the projections, the fundamentals of startup bus-

inesses still hold true. Gone are the days when venture capital was easier to come by (notice how we didn't say "easy"). Angels and VCs need proof of far more than a concept before they commit to funding a project. But the founders who are determined to thrive in this environment despite the odds will find themselves stronger for it. 🍎

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