



## The Great Hunker Down

Inflation, recession, and portfolio rebalancing make investment capital difficult to find. The Great Hunker Down has begun as investors put their checkbooks in the drawer.

Venture capitalists (and banks) are sitting on tens of billions of dollars, waiting for a compelling reason to finance companies. Inflation and a possible recession create a wall of uncertainty that many investors are unwilling to climb. Attractive money market and bond rates act as a short-term incentive to keep capital on the sidelines.

We have seen this many times before, but this round is slightly different. In a post-COVID world (if that is what this is), printing presses are still creating money. Governments around the world are spending it, some of it, no doubt, wisely. Over the last two years, investors have put record funds into emerging companies. When uncertainty follows this kind of binge spending, even drunken sailors take their money off the bar.

Venture capitalists make their money on a few very successful investments. For the average company in a portfolio, capital has always been difficult to raise.

Today, even the unicorns face lean times. What to do?

### Conserve Capital

Many boards have told management to cut their burn rate. Capital preservation and profitability now trump growth. Cutting expenses is never fun but now is the time to begin.

Geographic expansion may be the first to go. Discretionary spending, meaning marketing programs and sales hires, is second. Take a hard look at under-performing resources and reduce headcount when appropriate. Also, think carefully before replacing any voluntary turnover unless it is absolutely necessary.

### Focus on Retention

The second key is to focus on customer retention. With less money to spend on acquisition it is an effort that pays twice: Less money is spent and more money is retained. This can be a particular challenge for SaaS companies, especially those with short-term cancellation policies.

Get on the phone and understand why customers churn. Consider a third-party

to make the calls so your ex-customers will open up and be honest.

#### Renegotiate

This may be the time to take your financials to the landlord and try to cut your real estate costs. COVID and the capital crunch together have probably decreased your need for office space. There may be a line at the landlord's door but it is worth your time to find out.

The same is true of bank lines like receivables financing. Any increase in your line helps extend your cash runway. For key equipment acquisitions it is time to consider leases or rent-to-own rather than purchases.

#### Tell the story

The environment may have changed but your overall story hasn't. With cuts to discretionary spending, telling the story is more difficult. It is time to double down on social media posting, making your website more compelling, and a variety of sales promotions.

Venture investments will increase over time. Make sure your company is top of mind when the spigot is turned back on. Stay in front of investors with a continuously updated value proposition.

#### Suck it up

The days of gourmet lunches at the in-house café have come to an end, hopefully forever. Suck it up. After sunshine and puppies come dark clouds and wolves. Put on your storm gear and get back in the game. Every management team faces this kind of environment at one time or another. This is your moment to shine through the

darkness. And let's face it, the alternative is not pleasant.

#### Reach out

We wrote an earlier article on the difference between strategy and practice. Today, the prime strategy is to conserve cash. Everything else relies on practice. Marlborough Street Partners has decades of experience in helping venture capitalists move their portfolio companies to successful outcomes. If you have a company that can use some help feel free to ping us. If you are a management team that could use some sage advice, do the same.

#### About MSP

Marlborough Street Partners is a team of senior operating executives that works with private equity and venture backed firms. We guide portfolio companies through their most important inflection points. Our C-level partners assess, reengineer, and when required, provide interim management to get companies on a winning trajectory.

We have addressed a variety of inflection points across small, medium, and global companies. We have been there, and more importantly, taken companies to the next level organically and through mergers and acquisitions.

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