Startup Roadmap

Navigating Roadblocks Between Rounds of Funding

Ashman Group

Introduction

There is no point in the startup journey that is as stressful as finding yourself stuck between rounds of funding.

When you closed that last round at a higher-than-expected valuation, the wind was at your back. Your investors believed in your strategy. Your employees believed in your leadership. Your friends and family were impressed with the mentions in the press.

Twelve months later, your cash burn rate is accelerating. Your funding milestones are getting further away. Your investors are asking how they can help, but their checkbooks are nowhere to be seen. Your employees know something isn't right and look to you for answers.

I've advised many founders that have found themselves in this situation. I've had to navigate this treacherous path twice. Once, as the COO of Thrillist Media Group, when our e-commerce business was in a full-blown pivot to rediscover product-market fit just as we started to raise our Series B. Once, as the President of M.M.LaFleur, when Covid changed the needs of our entire customer base overnight.

To navigate the roadblocks ahead, you need to follow a disciplined strategy built on fundamental principles. In this paper, we'll break down the steps so that you have the playbook.

First, to diagnose the problem, we'll take the time to understand product-market fit and why it can suddenly disappear.

Then, we'll focus on the steps you should take to extend your runway and set a clear course to an achievable funding strategy. Finally, we'll consider our future funding options and what we may need to do to get there.

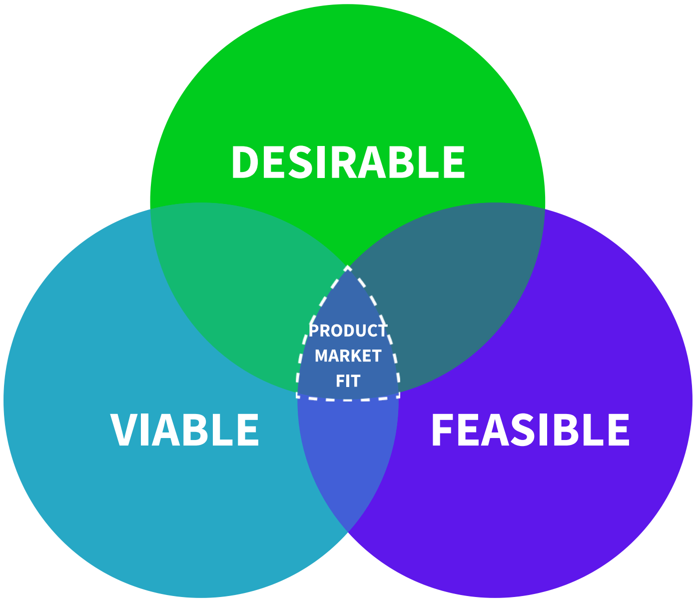
Every situation is different. But we can employ a consistent framework to create the roadmap you need to achieve your goals.

I hope you find this guide helpful as you navigate the roadblocks on your startup journey.

Best,
Eric Ashman

Part I: Product-Market Fit

Product-market fit lies at the intersection of Feasible, Desirable, and Viable. You won't likely find product-market fit by chance. You find it through a disciplined process of testing, iteration, and measurement.



You refine your business model. You ensure it will scale over time. You don't get tricked by vanity metrics.

The search for product-market fit can be a relentless, grueling effort beset by constant setbacks and disappointment. Finding it is only the start of your journey.

- **Feasible:** You can build the solution for your target market, given the skills and experience of your current team and available capital.
- **Desirable:** Your target customers are willing to purchase your product or service solution at the price you need to charge to support your target unit economics.
- **Viable:** Your startup can consistently generate profits and positive cash flow as you scale.

9 Questions Define Product-Market Fit

Feasible

- Do your past experiences provide you with the knowledge of the customer and the industry to truly understand the problem you are trying to solve?
- Do you and your team have the technical skills to build your product?
- Do you have the cash runway necessary to develop your product, bring it to market, iterate to product-market fit, and hit your critical funding or cash flow milestones?

Desirable

- Are you customers willing to pay a price that delivers acceptable contribution margins?
- Do your customers keep coming back, building strong customer lifetime value, or do they dip their toes in once, only never to return?
- Can you acquire new customers efficiently, supporting your target unit economics?

Viable

- Is your business model scalable, allowing you to maintain a clear path to profitability and positive cash flow as you grow?
- Do you have sufficient capital to fund investments critical to your growth, such as inventory, capital expenditures, and R&D?
- Can you reach your milestones for your next fundraise or positive cash flow?

Losing Product-Market Fit

We talk a lot about finding product-market fit. We should talk more about how easy it is to lose it. That's the real trap for most venture-backed founders.

How does that happen?

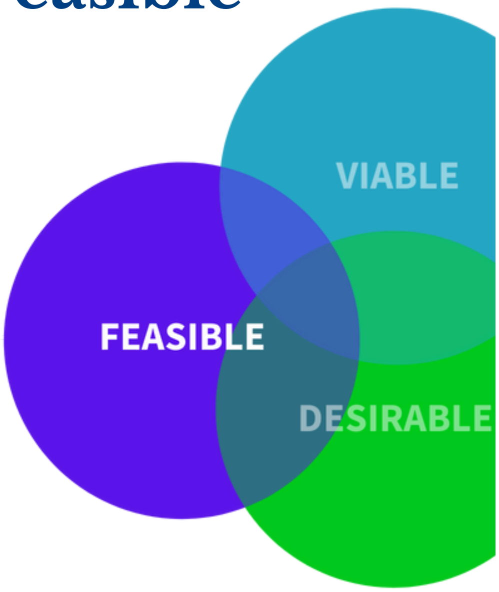
3 Ways You Can Lose Product-Market Fit

- You can iterate your way out of Feasible
- You can scale beyond Desirable
- External events can move the Viability goalposts

These are critical concepts. We can only create an action plan to address the problem if we understand what happened.

Let's take the time to break this down.

You Can Iterate Out of Feasible



As you scale in your search for more customers, you'll inevitably receive market feedback. Suggestions for changes to your existing product. Requests for new features. Even completely new solutions for new customer segments that were never on your original roadmap.

Of course, you respond because you're focusing on growth.

Your product roadmap expands. And at some point, you realize you're building products beyond your team's core expertise. You're targeting markets you don't completely understand. Your roadmap requires a level of investment your current runway won't allow.

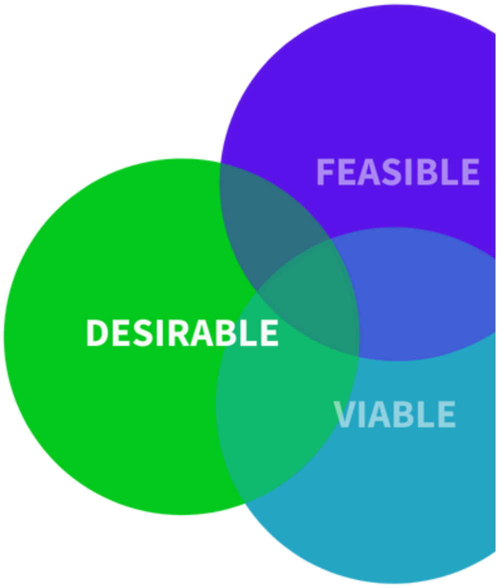
You've iterated yourself beyond Feasible.

You may need to go back to square one and ensure you truly understand your target customer and the problems they are trying to solve. You may need to add different talent to your team to support future product development or your go-to-market strategy. You may need to reset your milestones to support your next round of funding before you run out of cash.

But you must take action to ensure you're on solid ground when it comes to the Feasibility of your startup, or the other two legs of the product-market fit stool won't matter.

You Can Scale Beyond Desirable

Your earliest cohorts of customers are your evangelists. Strong retention. High lifetime value. Organic reach as they spread the word. You are at the point of maximum efficiency in your customer acquisition efforts.



But as you increase your investment in customer acquisition in the search for your next leg of growth, you may notice that those new customers are less sticky. They cost more to acquire.

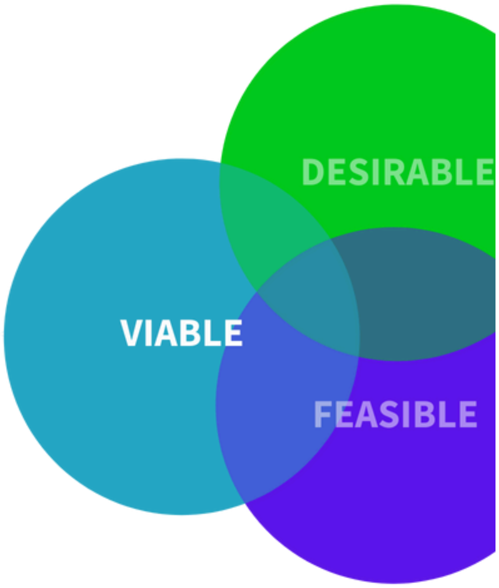
These dynamics only increase as you increase your investment in customer acquisition. And then, suddenly, you're overspending on marketing and missing your revenue goals.

You're scaling beyond Desirable.

Whatever the reason, the worst thing you can do is to accelerate customer acquisition in a last-ditch effort to chase top-line growth. Hoping this gets you over the line in your efforts to raise your next round of funding. Cash burn accelerates. Your unit economics will break down. And if that funding doesn't come through, you will run out of cash.

The best course of action is often to slow down, diagnose the real problem, and then set a plan to rediscover Desirable at scale.

External Factors Can Shift Viable



Your ability to stay in control of your startup and navigate your way to the best possible outcome runs through Viable.

You can successfully navigate many of the roadblocks on your startup journey when you have a clear path to scalable, cash flow positive growth.

Even with perfect execution, the Viability of your startup depends on a combination of external factors well outside of your control.

A recession can suppress customer demand. Inflation can increase your product costs, lowering your contribution margin. Increased competition can drive up the cost of customer acquisition, reduce customer loyalty, and ultimately make your customers less valuable.

These dynamics weaken your unit economics, lower operational efficiency, and ultimately make your startup less Viable.

The challenge for any business is that even as you execute a disciplined growth plan that navigates the challenges of Feasible and Desirable, external forces can take you off the path of Viability.

Never lose sight of your path to Viable, and react quickly when it's clear that the path has shifted.

Part II: Taking Action

It's critical to recognize when your startup is off track and take decisive action while you still have enough cash to reset your roadmap and ensure you're moving toward an achievable funding goal.

You'll recognize the warning signs. You're missing revenue targets. Customer acquisition and retention metrics are weakening. Your cash burn is accelerating, and your runway is getting shorter. You're no longer confident you'll achieve your milestones before you launch your next fundraise.

Don't let your startup drift into a crisis. Make the tough decisions.

You must design your action plan to extend your runway, reset your milestones, and set a new course for your targeted funding strategy.

When executed well, a restructuring can leave your startup more resilient, focused, and better prepared to navigate the challenges ahead.

3 Principles of Taking Action

- **Do Fewer Things Better:** Don't expect to simply reduce resources across the board and ask your team to do more with less. That will only accelerate the poor execution that got you into this mess in the first place. Find your stop-doing work. Shift people and money to the highest potential opportunities and leave the rest behind.

- **Avoid Death By a Thousand Cuts:** If you're committed to doing fewer things better, you have difficult decisions ahead as you reduce expenses. Make your first round of cuts deeper than you think you need. Rolling out multiple rounds of incremental layoffs and cost reductions is devastating to morale and will sap the confidence of your team and your board.

- **Prepare to Get Smaller and Slow Growth:** Inherent in the concept of doing fewer things better is the potential that you'll have to slow down your growth or even get smaller. You need to find a solid foundation of product-market fit and then reset your roadmap to reaccelerate growth.

Focus Your Action Plan

You want to move quickly and decisively. Don't try to boil the ocean. Focus on your highest potential opportunities: the four main areas of investment that we tend to overfund in our race to our next round of funding.

- **Products:** Weeding out underperforming products is the best place to start. Which products aren't pulling their weight? Poor sales. High cancellation and return rates. Low contribution margins. Finding your Stop Doing work starts with refocusing your product portfolio.

- **Marketing:** Take a fresh look at your LTV:CAC ratio and unit economics. Don't use a three-year LTV if you only have nine months of cash. Shut down unproductive marketing channels and reduce spending to sustainable levels in the remaining channels. Simplify marketing execution across every team.

- **Sales:** Review every sales channel – from e-commerce, physical retail, and wholesale to direct and indirect B2B sales teams. Every sales channel has its own P&L and cash flow profile. Shut down inefficient sales channels that waste time and money, and refocus your efforts on the highest potential path to your customers.

- **Operational Efficiency:** Once you've made the tough decisions with respect to your products and customer acquisition efforts, adjust your investment in operations to match your go-forward strategic plan.

Watch Out For These Three Traps

Once you've jumped over the mental hurdle of preparing to take action and make difficult decisions, you and your employees will second-guess every decision, throwing up your own roadblocks to the change you need to make.

Watch out for these three traps.

- **Avoid the Sunk Cost Fallacy:** Money and time spent are water under the bridge. There is no getting it back. At any particular point, only the future investment of time and money, compared to expected outcomes, are relevant.

- **Beware the 20-60-20 Rule:** 20% of your startup's initiatives are obvious failures. 20% of your startup's initiatives are winners. It's the 60% in the middle that will kill your startup. Every day, they suck up precious time and money while meandering along in the zone of mediocrity. You won't find sufficient cost reductions if you can't navigate the tough decisions in the 60%.

- **Avoid Analysis Paralysis:** Most startups lack the reporting and analysis tools to quickly produce the information they need to determine which projects in the dreaded 60% zone are worth continuing to support. You need to give your team permission to make the best decision they can with the data they have.

Part III: Funding Strategy

As discussed in the last section, the whole point of 'Taking Action' is to extend your runway, reset your milestones, and set a new course for your targeted funding strategy.

As a venture-backed startup, determining the right funding strategy comes down to two fundamental questions. Can you remain Default Investable? If not, do you have a clear path to Default Alive?

If you can remain Default Investable, you will design your action plan to set new milestones that put you on the path to raise additional equity investment from existing and new investors.

If you are no longer Default Investable, you must find your path to Default Alive.

We are not going to be discussing debt in this paper. The use of debt can be an important tool in your funding toolbox. But as a general rule, don't use debt to fund operating expenses, particularly your customer acquisition efforts. Debt is best used for purchasing assets that live on your balance sheet, specifically inventory and capital equipment.

There are consequences to defaulting on debt that can be far more severe than missing growth milestones and disappointing your investors.

Now, let's go deeper into the concepts of Default Investable and Default Alive.

Default Investable

There is one core tenant of raising venture capital. You're raising this round to reach the milestones that will enable you to raise your next round of funding at a higher valuation. Or find a path to an exit that delivers the returns your investors seek.

This is the concept of Default Investable. Every time you close a round of funding, you start an 18-24 month countdown to your next fundraise.

Every time you try to raise a round of funding, your prospective investors are asking three fundamental questions:

Why this problem?
Why now?
Why you?

Your investors are assessing whether the problem you're trying to solve at this particular moment in time can deliver venture-scale returns. And if so, can you and your team execute to the level required to deliver those returns?

Why this problem? Why now?

One frustrating aspect of raising subsequent rounds of funding is that the answer to these two questions can change over time, even for your current investors.

Potential investors and acquirers can be a fickle group. One moment, your sector is red hot, commanding outsized valuations and a constant flow of meeting requests from potential acquirers. The next moment, valuations have collapsed, investors have moved on, and even bankers won't take your call to help you run a sale process.

Founders need to remember that their ability to raise that next round of funding is not solely dependent on their ability to execute. Even as you hit your key milestones and carefully manage your runway, events outside your control constantly move the goalposts.

Pay attention to these shifts in investor sentiment. They can move the goalposts for Default Investable beyond your reach.

Why you?

As you try to raise your next round of funding, investors have your past execution as a guide to your future prospects. This is why raising a bridge round or your next priced round can be so hard when you're struggling to deliver on the plan you committed to your last round of investors.

As you develop your Action Plan and reset your roadmap, you must do two important things. Set clear milestones your investors believe you can achieve. Demonstrate that achieving those milestones will lead to your next round of funding, at a higher valuation, or a successful exit.

If that's not possible, then it's time to consider a pivot to Default Alive.

3 Rules of Staying Default Investable

As you struggle to remain Default Investable, you must understand three essential concepts.

- **Don't Fear the Down Round:** Sometimes, you must reset your valuation to mirror your progress. You may need to accept the lower valuation and dilution, put the money in the bank, and keep building value. Stay focused on execution; a down round can be a speed bump in your journey rather than a dead end.

- **Don't Trade Investment Structure for Valuation:** Understand the impact of liquidation preferences, participation, and control provisions. You'll almost always find that accepting a lower valuation is better than too much structure that limits your future upside and options.

- **Understand Your Investor's Rights:** Recapitalization. Pay-to-Play. Investor Blocking Rights. When the path to Default Investable is blocked, but you still believe you can deliver a venture-scale outcome, you need to understand these concepts.

Default Alive

When your startup is no longer Default Investable, finding your path to Default Alive is critical while you still have enough cash runway to survive.

Raising venture capital is not a commitment to your investors to "Go Big or Go Home." In your fundraising pitch, you laid out the vision for your company. You explained your hypothesis for your product's Total Addressable Market ("TAM") and your approach to realizing product-market fit to deliver a venture-scale outcome.

However, the fact that 90% of venture-backed startups fail to reach their Series C or an exit reinforces that this hypothesis is usually wrong. The TAM for your product was much smaller than you thought. Acquiring customers at scale was too expensive. Your solution wasn't as sticky as you had hoped, and customer lifetime value missed the mark.

That's ok. If you're in this situation, take solace because you're in good company with many other founders.

Your commitment to your investors is to try to deliver venture-scale returns while achieving your vision. That doesn't mean you must drive your startup into the ground in a desperate attempt to meet their expectations.

When Default Investable is no longer an option, it is ok to pivot to Default Alive, saving your company and allowing you to continue the journey of fully realizing your vision.

Default Alive means that you have a large enough island of product-market fit to consistently generate positive cash flow. There are two critical considerations for you as a founder as you shift to Default Alive.

First, you are likely leaving Default Investable behind. Once your startup jumps off of the venture fundraising path, it's very difficult to get it back on in the future.

Second, you'll be running a much smaller business than you had originally envisioned. You'll have to shift your focus to operational excellence across your company rather than building toward the constant cycle of fundraising and pursuing a bigger outcome. That's not a shift every founder can make.

Not every startup has a clear path to Default Alive.

If you haven't uncovered sufficient product-market fit to generate positive cash flow, and your runway is too short to continue your efforts to try to find it, an orderly wind-down might be the best possible option.

Don't just drive your startup off the cliff and take cash down to zero. Be proactive, treat your employees as fairly as possible, and prepare yourself mentally for moving on.

4 Principles of the Shift to Default Alive

1. **Optimize your product portfolio.** Get your contribution margins up. Raise prices. Get your product costs down. Discontinue products that can't meet a minimum threshold for profitability and sales volume.

2. **Optimize your sales channels.** Discard unprofitable channels. Find the most efficient path to your customers.

3. **Get your customer unit economics in line.** Reduce your customer acquisition expense to optimize the breakeven period to support your target cash flow. Keep your LTV:CAC ratio above a minimum of 3x.

4. **Stop chasing growth and vanity metrics.** Shift your focus to profitability and positive cash flow. You'll need to change the language of your organization, the weekly reporting you use to track your progress, and the goals you set and define success.

Next Steps

There is no point in the startup journey that is as stressful as finding yourself stuck between rounds of funding. Every situation is different. But we can employ a consistent framework to create the roadmap you need to achieve your goals.

Set your measurement framework for product-market fit. Avoid vanity metrics. Remember that it's much easier to lose product-market fit than it is to find it.

Take action. Don't let your startup drift into a crisis. Do fewer things better. Make the tough decisions.

Stay Default Investable for as long as you can. Pivot to Default Alive before it's too late.

If you need help navigating your situation, let's talk. Our Startup Strategy Roadmap and Accelerator are designed to help founders navigate the roadblocks along their startup journey.

Schedule a Call

The Ashman Group

I help founders stay in control of their startup's destiny. Whether stuck between funding rounds or pivoting to profitability, I can guide you through difficult decisions, helping you maximize value and achieve your goals.

With over 25 years of experience partnering with founders and CEOs, I've helped businesses increase sales, expand operating margins, raise nearly $200 million in venture capital, and secure successful outcomes - and I can guide you along this same path to success.

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