STARTUP ROCKSTARS ARE NEVER SILENT

For early stage startup investors, communication is the missing link to improving performance.

Venture capitalists, angel investors, and advisors alike commiserate over the too-common problem of never hearing from the founding team until it’s too late - e.g., until they run out of money, lose partnerships, encounter legal trouble, etc.

On the other hand, the entrepreneurs that do communicate are often portfolio favorites because they have their investors’ attention. This benefits the startup because by providing continual transparency, the company is able to get help in each time of need. So the hurdles of raising capital, hiring, and finding key introductions do not threaten to cripple the business.

Minimizing such challenges ultimately leads to better startup execution. Roadblocks are fewer and farther between for the entrepreneurs that asks for help - because they receive it.
“When you have problems, that’s when you should lean on your investors most. There is another really awesome reason to keep investors updated: they didn’t give you all of their money — they have more!!! They want to give you more!!! If you keep your investors engaged with honest updates they will reward you by participating in future rounds.”

Jason Calacanis | internet entrepreneur, investor in 150 startups

To test the hypothesis that communication begets better startup execution, AngelSpan partnered with the Jon Brumley Texas Venture Labs Accelerator, a University of Texas program that pairs teams of graduate students with early stage startups to execute projects specific to each company’s growth.

Our team of MBA, law, and engineer graduate students were tasked with conducting primary research to confirm how often investors and advisors hear from startups, the relevancy of the information they receive, and whether or not they agree startups that communicate perform better compared to startups that do not communicate.

online survey of 46 investors, advisors, and mentors across the US that have worked with 7,612 early stage startups conducted April 2016
According to early stage startup investors, advisors, and mentors, the majority of startup companies are too quiet: they do not send updates often enough, communicate relevant information, nor provide transparency of their business challenges.

Financial summaries, team and hiring information, and sales updates are the most common details startups fail to provide to their investors, advisors, and mentors.

**Key Findings:**

- **34%** communicate at least once per quarter
- **31%** ask for help from investors, advisors, and mentors
- **24%** provide relevant information
- **18%** provide monthly operational updates and KPIs
Results of the survey confirm what experienced investors already know to be true: entrepreneurs that communicate get more help and are better performers compared to startups that stay silent.

- 77% agree startups that communicate perform better in regards to execution and eventual exit.
- 83% are more likely to offer help to startups that communicate compared to startups that do not communicate.

Despite recognizing that increased communication is correlated with better startup performance, only half of early stage investors, advisors, and mentors claim to require communication.
“As an investor, I’ve noticed that our best-performing companies send investor reports frequently while the ones that are flailing or flatlined never do unless reminded. I think less of entrepreneurs who never send any information, because I think they have no hustle to ask for help when they need it nor are brave enough to own up to the situation.”

Elizabeth Yin | partner at 500 Startups, co-founder of LaunchBit

There is an information gap between early stage startups and their investors.

Most startup companies do not provide updates on their progress, and even fewer communicate on a monthly basis. Investors share the blame for the lack of communication - while the significant majority of investors recognize the link between communication and better performance, they do not require communication for their investment.

Closing the information gap necessitates a change to current behavior, and change will only happen if it is enforced. Investors should require communication as a condition of their investment because they are more likely to have a positive outcome.

Committed entrepreneurs will therefore make consistent communication a habit and will find success via more help from their stakeholders, follow-on investment from existing investors, shorter due diligence cycles, and more M&A opportunities.

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