Business angels invest more selectively in 2024

Emerging companies in every industry need to focus on streamlining operations and making money.

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For an investor, the challenge is always to figure out which projects are good — and which are just good at marketing themselves. Now, with geopolitical uncertainty, persistent inflation, difficulty accessing funding and rising unemployment, investors are less likely to focus on “good ideas” and more likely to evaluate tried-and-true indicators. These include the resilience of the entrepreneurial team, how solid the project is and a startup’s ability to adapt to tougher funding environments.

According to the latest report (in Spanish) by AEBAN (the Spanish association of business angels) and IESE, venture capital investors are being more cautious, opting for moderation and a selective investment strategy.

Among the main challenges these investors face are the search for quality investment opportunities (59%), the lack of opportunities in the investment ecosystem due to low liquidity (41%) and persistent economic uncertainty (39%).

2023, an investment decline

Of the Spanish investors surveyed, 68% made between one and five new and ongoing rounds of investment during 2023, while only 9% made none at all. This marks a significant improvement on 2022, when 59% of investors surveyed didn’t make any investments. Their preferred sectors for investment were healthcare, biotechnology, aerospace and the financial sector.

That being said, overall investment activity during 2023 saw a significant decline at all levels. The declines were greatest in the more mature stages of investment, while more moderate decreases were seen in the earlier stages.

As in years past, the gender gap in angel investing is still considerable: Men invest over twice as much as women, who typically commit smaller amounts of their wealth (no more than 5%), while men allocate over 10%.

The requirements of investment in 2024

When investors get cold feet, startups start to sweat. Achieving funding is challenging at the best of times. Companies must demonstrate that their projects meet the following investment criteria:

- **Lean expenses:** eliminating superfluous spending.
- **Customer care:** prioritizing getting and keeping customers over better products or technology (the more income generated, the longer the survival time).
- **Regular revision of strategy:** evaluating and rationalizing the business model

regularly, regardless of the project phase. With efficiency in the spotlight, companies need to assess everything and slow down or pivot when necessary.

A new mindset is growing in the startup sector

According to the report, these new investment realities reflect a change of mindset ushered in by the macroeconomic context. The focus now is on efficient capital use and profitability from the beginning, rather than rapid growth or the search for additional funding.

This, in turn, invites us to rethink how business should be done. The authors pose a number of questions to help entrepreneurs improve their chances of attracting investment:

- How can I increase operational efficiency?
- Are there avenues to generate revenue that I haven't explored yet?
- How can I increase the customer lifetime value?
- Can I achieve all this without compromising the quality of the product?

At a time when both new and established startups are having to work harder to attract funding, entrepreneurs must grasp that the survival of their projects lies in agile operations and acquiring revenue-generating skills.

About the research

The annual survey by AEBAN and IESE tracks the profile of angel investors in Spain, collecting data on the profile of investors, the size and nature of their investments, and their future expectations. For this edition, 193 questionnaires were collected and completed between December 2023 and February 2024.

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