McKinsey & Company

Accelerating in a slowing economy

Fight the danger & capture the opportunity

September 2022



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We are facing seismic events…

Russia-Ukraine war

War in Europe, causing supply shocks

COVID-19

Pandemic takes >6mn lives and disrupts livelihoods

Inflation leviathan

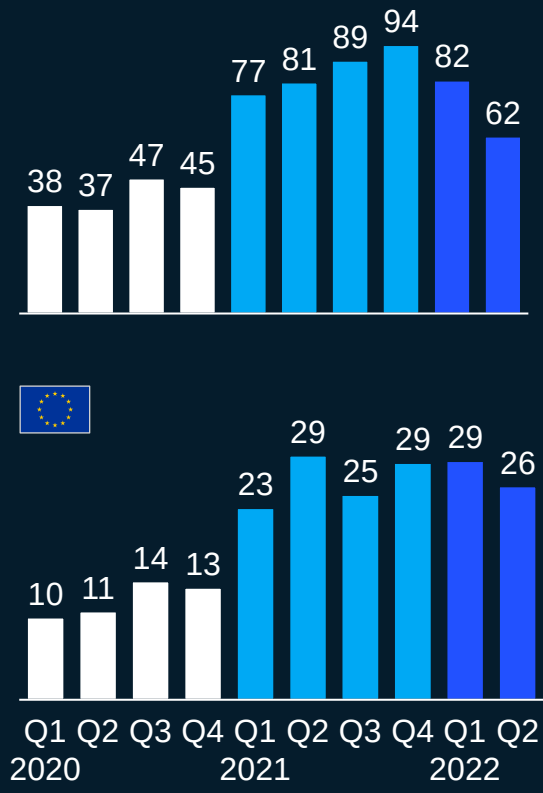
Highest levels of inflation in 40 years

China's changing role

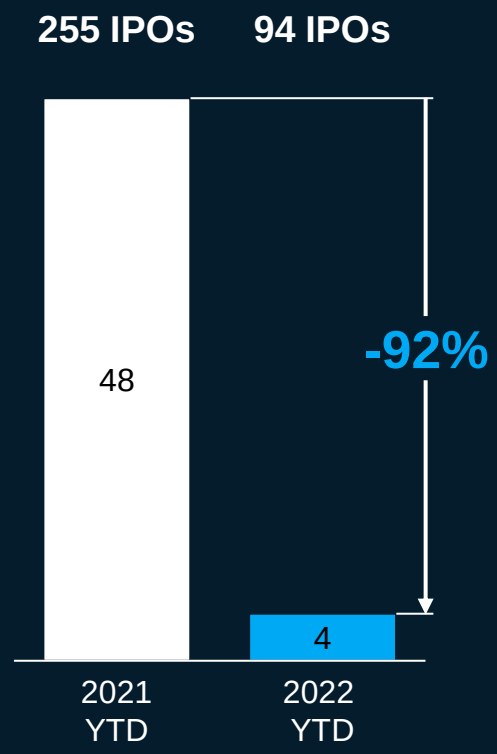
China's GDP pulls ahead of EU, but no longer in 'hyper-growth'

…with rippling effects into the start-up ecosystem

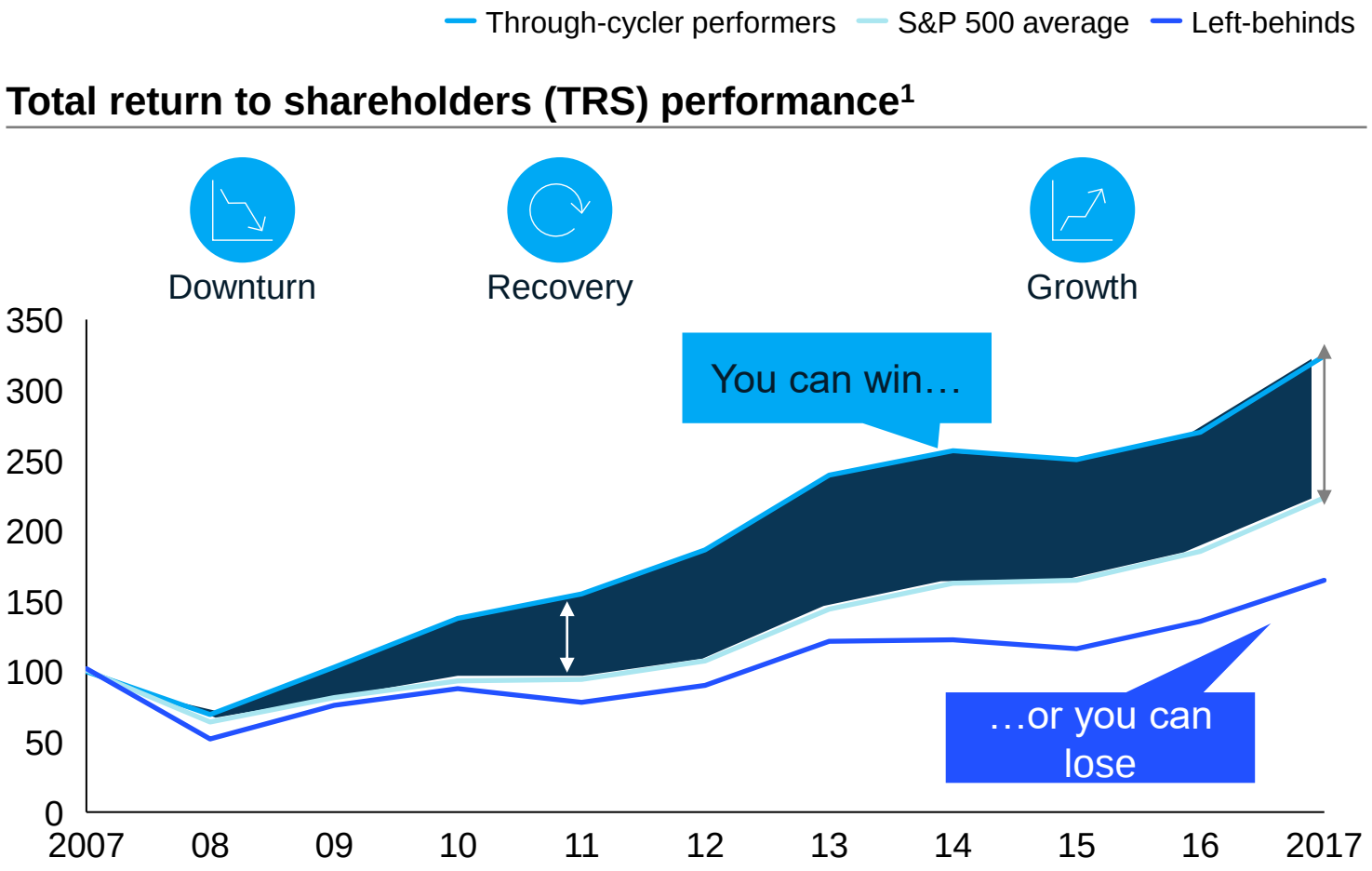
Mixed effect in VC funding volume, USD/EUR bn



Decline in proceeds value and number of IPOs in Europe, USD bn



Who will lead or lose tomorrow, is decided in times like today…



1. Indicating value creation, calculated as average of sub-sector medians performance of "Through-cycle performers" (top quantile) and "Left-behinds" (bottom quantile), incl. 1140 companies
Note: This analysis excludes financial companies

Source: CPAnalytics; McKinsey analysis; McKinsey Startup Survey 2022

…and many startups are already active

91%
increase customer acquisition efforts

91%
accelerate product launches

71%
Are concerned with their current cash burn or runrate

Are you prepared for through-cycle performance?

How to win? You need to fight the danger & capture the opportunity at the same time

Learnings from through-cycle performers during the global financial crisis

Details on next page

Fight the danger

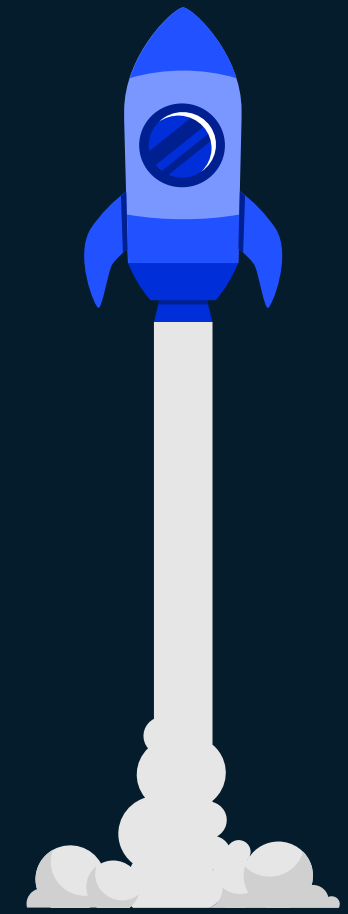
1	**Balance growth and profitability**	to manage cash burn and extend runway	Left-behinds had 1.5-9x higher debt/EBITDA ratio before and during the recession
2	**Focus on core value proposition**	to increase customer traction and sustainable revenues	Through-cycle performers divested 2X more going into the recession (2006-07)

Balance slowing down activities to accelerate others

Capture the opportunity

3	**Adopt era thinking**	incl., long-term vision, resilience & prioritization plan	Through-cycle performers increased R&D investments up to 3X faster during and after the recession
4	**Invest in strategic opportunities**	e.g., M&A, key talent acquisition, market gaps	Through-cycle performers did 30% more M&A deals at the bottom of the recession (2009)

Start placing some bets in downturn, then accelerate in recovery



> We try to **profit from the situation** – looking for laid-off talent and acquisitions

Several opportunities to accelerate in downturn exist

	Challenges in today's environment	Potential opportunities
Value proposition	Undifferentiated value propositions do not work anymore	Use the direct customer feedback to refine your value proposition and competitive positioning
Profitability	Given inflation, margin management both more difficult and more important, and VCs increasingly expect clear "path to profitability"	Many companies will not be able to sustain current offering, opening the chance to attract customers from competition
Talent	Many leadership teams have not faced this macroeconomic environment	Tight talent pools – especially for tech talent – are opening up
Capital	Cost of capital has not been this high in 20 years – bad decisions can cost more	Capital will be available for well-performing companies (although likely more expensive) and alternative opportunities increase (e.g., debt)
M&A	Equity as an acquisition currency is worth less than before	Well-capitalized, resilient companies have more M&A funding alternatives, others likely to become acquisition targets

How to win together? We offer a 2-3 weeks diagnostic phase…



Assess the situation
~ 1-2 week

Rapid performance analysis based on real data, incl. budget baselining, KPI benchmarking with competitors based on McKinsey global industry and functional best practices

Comprehensive **risk assessment using** McKinsey risk framework

Top-down **assessment of opportunities** – e.g., product-market fit cost optimization, growth ROI, and org. design & culture based on McKinsey databases

Refine the strategy together
~ 1 week

Consolidation and review of results

Definition of initiatives for immediate action (fight the danger) and strategic growth opportunities

Implementation plan with concrete actions and prioritization

…to develop a fact-based strategy together



Objectives

Identify **3 immediate actions required to fight the current danger** (e.g., extending runway)

Identify **3 opportunities to accelerate growth** (e.g., M&A opportunities)

Set core priorities and define actionable targets

We bring what McKinsey is know for…

134 offices

67 countries

>20,000 consultants

22 industries we regularly serve

8 cross-organizational functions we have deep expertise in

Global network
of alumni, working in every business sector

… and a McKinsey you may not have heard of yet

250+
unicorns served globally

450+
startups and scale-ups received our support

300+
new businesses built

700+
experts with business-building experience

100+
Innovation Bootcamps hosted

5,000+
experienced tech talents across disciplines

Start-up experience and mentality

Solutions specific to early and later stage needs

Flexible commercial models tailored to early and late-stage companies

We have an unrivalled network of experts in the global ecosystem…

Not exhaustive Selected examples

Investors

SEQUOIA

BESSEMER VENTURE PARTNERS

Lightspeed

INSIGHT PARTNERS

FLOODGATE

Northzone

GSR Ventures

Founders

aurora

Door Dash

Grab

Compass

Delivery Hero

INMOBI

zymergen

40+ Unicorns founded or co-founded by McKinsey alumni

Tech Executives

amazon.com

ebay

UBER

airbnb

Google

5,000+ experts across all sectors and geographies



James Bilefield
Europe
Serial digital entrepreneur, scaled Skype's global business, Managing Director Yahoo Europe



Troels Støvring
Europe
Former CEO of Twill, 2019 nominated Denmark's Top 100 business talents in below 36 years



John Straw
Europe
20+ years experience as digital marketing/strategy expert, founder with 4 exits



Maria Thomas
North America
Leader and CEO of several digitally-based businesses, former CEO of Etsy

… working with many start-ups and scale-ups to support their long-term success



Strategy and expansion

- Strategy review
- Strategy and path to profit
- International expansion
- Build adjacent business
- B2B sales excellence and commercial plan
- Marketing and Sales (incl. customer acquisition)
- Pricing optimization



Organization, operating model and risk

- Target Operating model
- Hyper scaling operating model
- Culture and talent
- Regulation compliance (incl. cross countries)
- Risk review and strategy
- ESG review and strategy
- Risk management for IPO preparation



M&A strategy and IPO

- M&A and integration
- IPO readiness
- Equity story and Vendor Due Diligence

We engage interdisciplinary teams and draw on our partnerships where required

Not exhaustive

Core tech platforms & Cloud

aws · Microsoft · SAP · Google Cloud · Alibaba Cloud

Digital solutions building

INCEPTECH · enrian partners · creative chaos · elephant ventures

Artificial Intelligence and Advanced Analytics

Periscope® by McKinsey · eightfold.ai · SPARK BEYOND · QUANTUMBLACK A MCKINSEY COMPANY · AKUR8 · Westney Capital Analytics

Tools and data

Finalta by McKinsey · Orpheus A MCKINSEY COMPANY · praetorian · Risk Dynamics A MCKINSEY COMPANY

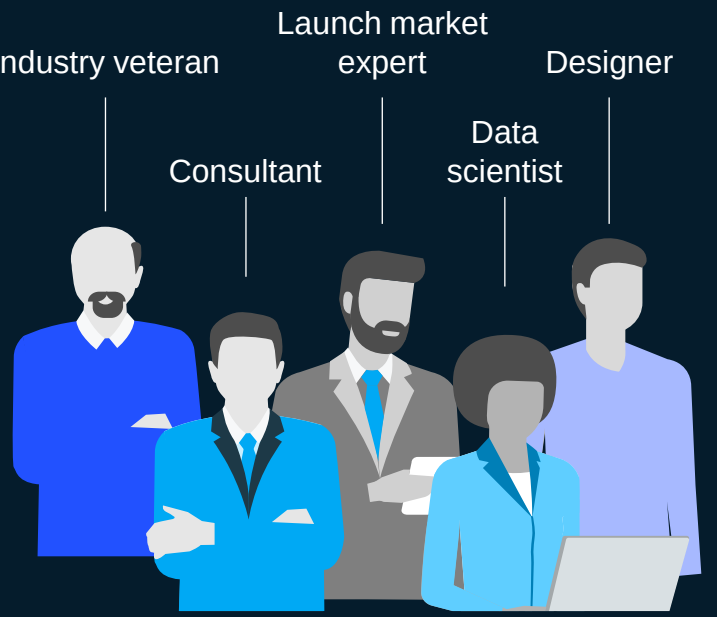
Design

McKinsey Design · LUNAR · Veryday

Sustainability

:vivideconomics · MATERIAL ECONOMICS · planetrics

Example team: combination of colleagues from traditional McKinsey consulting, industry 'veterans', McKinsey Design and Quantum Black tech experts



We have dedicated enthusiasts and experts to help you accelerate in this slowing economy!



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Get in touch.