

# Layoffs and lean times ahead for Europe's startups amid inflation and energy crisis

Article

**The trend:** After a record amount of investment in 2021, Europe's tech startup industry is facing layoffs and falling valuations.

- After garnering over **\$100 billion** in startup capital last year, Europe's venture capitalists warn of an impending industry bloodbath, [per](#) Insider.
- Although Europe's startups snagged **\$58.6 billion** in VC funding during the first half of 2022, signs point to a bleaker second half marked by the abrupt **end of easy funding rounds, uncontrolled spending, and smooth transitions** from private to public markets.
- There's also a growing trend of startups **raising funds through "internal rounds" from existing investors** to keep outsiders from making unfavorable valuation assessments.
- "The age of entitlement is over," **Michiel Kotting**, partner at **Northzone**, told Insider. "That applies to investors, employees, founders."

**Notable startups taking a hit:** Plummeting valuations and layoffs are already hitting subsectors like consumer tech, fintech, and SaaS.

- Sweden's payments firm **Klarna** is valued at **\$6.7 billion** down from **\$46 billion** in June 2021.
- London-based virtual conference platform **Hopin** just laid off **29%** of its staff.
- Berlin's rapid grocery delivery startup **Gorillas** [laid off 300 employees](#) and is "burning a lot of cash" as a valuation hit looms.

**How we got here:** Interest rate hikes to battle **inflation, the war in Ukraine, and Europe's energy crisis** have eviscerated the foundation that fueled startup growth in recent years. A subsequent pullback of **"tourist investors"** compounds the harm just as shifts in post-pandemic spending pick new startup winners and losers.

- Low interest rates helped direct record capital to startups as the number of unicorns—startups reaching valuations of **\$1 billion**—[doubled](#) between 2019 and 2021.
- However, that unprecedented growth now appears to be too much of a good thing as companies struggle to maintain their valuations with funding drying up due to higher interest rates.
- The continent's energy crisis driven by climate change and insecure natural gas supplies from Russia has triggered higher prices, [industry shutdowns](#), and [hindered](#) data center operations.
- An influx of non-traditional VC investors from the US, which contributed to Europe's inflated startup valuations over the past year, are now backing out due to the downturn.

**What to watch next:** The turn of events correcting overheated growth doesn't bode well for the continent's near-term startup landscape, but the longer-term outlook is less clear.

- We'll likely see investors have more of an upper hand in setting deal terms, including demanding higher liquidation preferences.
- Yet a slew of tech startups **hiring** for open roles could mean that the industry might quickly adapt to leaner times as demand persists for their products and services.
- The longer view will largely depend on how long it takes to curb inflation and how Europe's energy sector fares over the winter months.

# Technology Innovations That UK Shoppers Want Most Digitally vs. In-Store, Q2 2022

% of respondents

## Frictionless payments



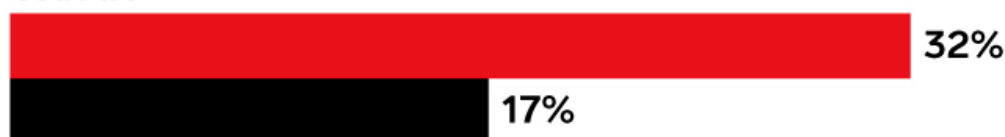
## Personalized product recommendations



## Personalized service



## VR/AR



## Seamless omnichannel experience (e.g., order online)



## Voice/face recognition technology



■ Digitally    ■ In-store

Note: ages 18-76

Source: Klarna, "Shopping Pulse", Aug 8, 2022

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