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**Entrepreneurship**

# What African Fintech Startups Can Teach Silicon Valley About Longevity

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Illustration by Andrei Cojocaru

**Summary.** One of the most conventional strategies for small-business longevity is the acquisition of financial resources. Although this approach has gained popularity in the West, especially among technology startups in Silicon Valley, it has not ameliorated the… **more**

Entrepreneurial firms have traditionally suffered from high failure rates. According to 2022 Bureau of Labor Statistics data cited in *Harvard Business Review,* roughly 65% of companies in the U.S. alone fail during the first 10 years, and only about 25% survive for 15 or more years. Those grim numbers raise the question: What factors distinguish firms that survive and thrive from those that fail?

One of the most conventional strategies for small-business longevity is the acquisition of financial resources. Although this approach has gained popularity in the West, especially among technology startups in Silicon Valley, it has not ameliorated the startup-survival problem. In fact, it seems to have exacerbated the situation. Statistics show that U.S.-based companies raise the most capital and experience the lowest longevity, whereas Africa-based companies raise the least capital and experience the highest longevity.

Our research shows what might be responsible for these disparate outcomes. Between 2022 and 2023, we studied more than 200 senior-level executives in one of Africa's fastest-growing industries: fintech. We found that the secret might lie not in investor readiness, but in change readiness: "the ability to continuously initiate and respond to change in ways that create advantage, minimize risk, and sustain performance." Fintech companies in Africa have demonstrated a phenomenal ability to initiate change in their environment by increasing underserved populations' inclusion in the financial system and access to financial services.

## Three Misplaced Priorities

We found that Western entrepreneurs display three misplaced priorities that have a negative impact on their change-readiness — and subsequently their longevity. We illustrate the African perspective using Payhippo, Sycamore, and Bankly, three leading, Africa-based fintech companies we studied.

### Focusing on investors rather than the market

The Holy Grail for most startups in the West is venture capital. On the surface, it seems that an influx of investment is sufficient to help a company survive its nascent stage. Consequently, for as many as six to nine months, entrepreneurs tend to focus on securing capital.

According to IDEO, four major storytelling moments are essential for any entrepreneur: the elevator pitch, the origin story, the pitch deck, and the internal story. This is the conventional wisdom of the West. But in the mad rush to get funded, many Western startups neglect a more important pursuit: market acceptance.

Instead of prioritizing polishing their pitch deck and refining their elevator pitch, we've observed that African entrepreneurs pay far greater attention to developing marketing materials, such as proposals, sales letters, or websites. For example, Sycamore took a lean approach to market entry and prioritized product development. By choosing to bootstrap in its early days, the startup freed itself to be more customer-centric in its marketing materials. Pitches, fliers, and online ads were intended for its target customers — small and medium enterprises — not just the investor class. Based on this approach, Sycamore was able to run primarily on customer revenue and organic cash flow for most of its first year of operation, as opposed to relying solely on equity funding.

Bankly's storytelling strategy was to highlight their ability to meet key customer needs for security, reliability, and trust through their financial products.

In the case of Payhippo, the company always focused on direct-to-customer communication and leveraged direct sales techniques for the first two years. In the third year, they decided it was time to start telling their brand story through online and offline advertising. From video-led content to event sponsorships and sales activation campaigns dubbed "market storms," their approach has always been direct-to-customer. Testimonials, for example, are one of the best ways to build relatability, so Payhippo focused on video content that spotlighted how they had helped their customers along their business journeys. Everyone loves a success story, and the videos helped potential customers understand what they would receive when they signed up. It also served as a product pitch to new users. Payhippo's brand focused on talking to customers, which helped them improve the product, increase their revenue, and grow their business.

### Engaging individuals rather than communities

Western culture is individualistic, and while this trait can be helpful for idea generation and innovation, it can be detrimental when forging the strategic alliances needed to grow beyond the idea stage. According to the *Journal of Business Venturing*, entrepreneurs in communal societies like Africa have an advantage when acquiring resources because they can rely on affiliations and relationships built with other firms.

Sycamore's approach, particularly to obtaining lending customers, was mostly based on closed networks established over time. For example, the first five customers consisted of the founders' former classmates and work colleagues. Leaders used the old selling approach of making a list of professional contacts, then calling each person one by one to schedule a visit or sell to them directly over the phone. While this was quite time consuming, it helped Sycamore target a few high-value customers whom they could serve effectively. This initial customer base, combined with personal attention, led to significant loyalty from these clients, who have remained with Sycamore for many years.

Bankly selected community influencers who could speak the language of their target segment, many of whom were semiliterate rural dwellers.

Similarly, Payhippo worked with associations and unions that represented the interests of potential customers and ensured brand presence in markets and other clusters where their customers were. Working with associations and sponsoring their events strengthened the brand among some of their most important customer groups.

### Celebrating external fundraising rather than external validation

The laser focus on capitalization that's common among Western startups lends itself to the celebration of capital raising as a major indicator of progress. According to the *Financial Times*, in the U.S., venture capital is often poured into companies with unproven business models, thus giving rise to "irrational" valuation figures. A case in point is Stytch, a two-year-old authentication software startup that had less than $1 million in annual recurring revenue when Coatue Management and other investors valued the company at $1 billion. Despite the scant proof of market acceptance and traction, this earned the company the coveted “unicorn” tag. To avoid the inevitable crash associated with this “overvaluation trap,” companies need to figure out fresher and more realistic narratives for valuation and value creation.

For most African startups, the celebration is tied not to alignment with the investor’s agenda, but to alignment with the external environment. Milestones such as certifications, government approval, and acquisition of operating licenses validate that a company is making a mark and has an impact on the operating environment.

While fundraising gave Payhippo an opportunity to expand business operations, celebrating product milestones was just as important. In 2022, one of the founders made a thread about their 97% collections rate. This went viral and gave them free press about the product in three publications. Payhippo also recently acquired a microfinance bank (in the approval stage at the time of writing) to further their mission as a one-stop financial service for African businesses.

Similarly, Bankly celebrated their ability to cross regulatory hurdles as well as user acquisition and transaction milestones, such as the number of people they protected from losses. Longevity and the addition of key employees were also mentioned as achievements worth celebrating.

A major highlight for Sycamore was the award of the Federal Competition and Consumer Protection Commission (FCCPC) approval. The company was intent on being recognized and fully verified by regulators to give it a wider acceptance as a bona fide player in the fintech space, particularly in lending. Being the first company to be awarded FCCPC approval in Nigeria certainly gave the startup a boost in its credibility. This was a cause for great celebration within the company, with press releases going out during that period to announce what was clearly a huge win. It also showed government agencies and regulators that a startup could be compliant with regulations. This is critical considering that Sycamore operates in the fintech industry, where trust is paramount.

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The quest for legitimacy is a major challenge for entrepreneurs worldwide. To ensure longevity, we encourage startups to adopt these three priorities of African entrepreneurs:

- Tailor storytelling to customers instead of investors
- Engage stakeholder communities instead of individuals
- Celebrate concrete milestones instead of capital raising

Stories such as Sycamore, Payhippo, and Bankly are not uncommon in Africa's fintech industry. We've found that these three strategies are fundamental for ensuring an entrepreneur's change-readiness, as well as their ability to thrive by making a positive impact on society.

How change-ready is your business?

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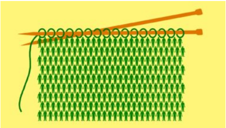

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