

Knowledge Series - Top 20 Things an Investor Should Know Before Investing in Startups

Traction & Early Customers

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Two years ago, a startup developing a portable dialysis device approached a group of investors. The tech was promising – miniaturized hardware, remote monitoring, and AI-based filtration management. Their prototype had won awards, and the founding team included biomedical engineers and a nephrologist.

But when asked about real-world usage, the response was vague: “We are in discussions with hospitals.” There were no pilot deployments, no paying customers, and no usage data. Investors passed.

A few months later, the same startup returned – this time with six successful deployments, partnerships with three rural health centres, and feedback from over 50 patients and clinicians. They had not yet scaled, but they had built trust, captured insights, and most importantly – demonstrated traction.

In the early stages, traction is not about numbers alone. It is about proof: proof that the product solves a real problem, that people want it, and that someone is willing to use (or ideally, pay for) it.

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What Is Traction

- Traction is the evidence of customer validation. It could be:
- Paying customers
- Successful pilots or trials
- Letters of intent (LOIs) from credible buyers
- Strategic partnerships
- Repeat usage or high engagement metrics
- Media or industry recognition (if backed by substance)

In essence, traction is a signal to investors that the startup has moved beyond theory.

Why It Matters to Investors

Traction de-risks the investment by:

- Showing market interest and product-market fit signals
- Validating the team execution capability
- Offering insights into sales cycles and customer behaviour
- Helping estimate conversion, retention, and pricing power

Startups with even modest traction stand out, because it takes persistence and agility to get there.

Real-World Examples

Ola Electric

Before launching its first electric scooter, Ola Electric opened reservations at a nominal price to gauge demand. The response was unprecedented – over one lakh bookings within 24 hours.

While delivery and production challenges followed, that early traction was a powerful signal of latent consumer demand, especially for electric two-wheelers with differentiated tech and design. It gave investors confidence that the market was real, and the product resonated.

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Ather Energy

In its early years, Ather Energy launched a pre-order campaign for its electric scooters even before commercial production began. The strong waitlist and customer engagement gave investors confidence that there was demand – and that the team could convert it.

How Investors Should Evaluate Traction

- Is there evidence of paying or repeat customers
- Do early adopters match the startup target market
- What is the customer feedback saying – are they delighted, or just testing
- Is the traction organic, or heavily driven by subsidies, grants, or freebies
- What does this say about the sales cycle, conversion rate, and unit economics

Key Takeaway

Early traction is one of the clearest indicators of a startup momentum. Even a handful of credible users or partners can carry more weight than a great pitch deck.

As an investor, do not just ask “How many customers”. Ask “Who are they, and why did they say yes”. Because when real users validate a product, that is when the story begins to get real.

