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From Venture Capitalists to Venture Catalysts

Dan Simmons, founder of UK launch accelerator for early stage founders, Propelia, discusses the changing funding ecosystem for startups and early stage founders and looks at how the investment world is keeping pace with a more purposeful business ecosystem.

Businesses around the world are becoming more responsible – towards employees, customers, the environment and society. They know that having a purpose beyond profit matters more to their customers than ever before and they have responded in order to remain relevant. While Amazon opened a virtual aisle so that it can showcase more sustainable products, other companies have voiced their views on diversity, underscoring the importance of being about more than what you sell; what you stand for and say is more important to customers than ever.

More innovative startups responding to the changing needs of consumers will also appear. But what about the Venture Capital world that they rely on to get started?

Increasingly it feels like the whole ecosystem around investment into early stage businesses is outdated and out of focus – with a continued focus on profit instead of purpose, and disruption instead of an ability to cope with change.

Radical change is needed if VCs are to themselves remain relevant, particularly in the post-COVID world where potential returns are likely to be significantly diminished anyway.

> *Without more change in the ecosystem, early stage founders with great ideas might never get the backing they need to succeed*

When the VC focuses on the founder and their purpose (founder-market-fit) rather than the profit potential of the product in the market (product-market-fit), it is a much more linear progression for VCs to become catalysts to growth, co-piloting the founder not just with capital but also with critical support, insight and guidance over the first 6-12 months of their journey.

Throw the three minute pitch deck and the use of tools and evaluative methodologies such as Net Promoter Score (NPS), Objective and Key Results (OKRs) and Key Performance Indicators (KPIs) out of the window. These are designed for much more mature businesses rather than fragile and iterative ventures that are just getting off the ground and no longer fit for purpose.

Early stage founders, in particular, will benefit from being co-piloted by their VCs because of where they are in their journey.

> *Smart VCs have always invested in ventures where they could get behind who the founder was, so this obsession with product and market never really made sense anyway*

Take Henry Marsden, founder of Brighton-based Bespoke Records and a bass player that toured with Elton John. In running his business and seeing how fellow artists struggled to realise any revenue for their work, Henry decided to set up a second business in order to fix how music royalties are paid (i.e. to reinvent the royalty collection and payment process which fails to pay artists for their plays on streaming services and elsewhere). At the core of his very early stage business, is a belief that everyone has a right to earn a living from their work.

His personal journey peeling back problem after problem in the 'back-end' of the industry and finding artists' income stuck in an archaic analogue collection system was an important part of his journey. His solution to reinvent the system, Creatr, – an online community for songwriters, performers and musicians to connect and collaborate that will provide a powerful and transparent platform for helping to connect their work with the revenue it generates – is not entirely 'product ready'. Traditionally founders like Henry would have struggled to find the funding they needed to bring their vision to life. Only by engaging with a VC that buys into the authority of Henry's journey rather than just his product can his idea and early stage ideas like this ever get off the ground.

With market conditions now very much being set to 'Uncertain' post-COVID, it is clear that any founder predicting more than 6 months out is simply putting 'their finger in the air' and practising some sort of startup fortune telling with no real basis in the reality of events unfolding on the ground. For the first time, both investors and founders can agree that a change is needed to adapt to this underlying uncertainty – particularly around evaluating those first 6 months in the early stage space. This is all important in creating the conditions for the shift from Product Market Fit to Founder Market Fit.

> *Some angels and VC's are ready to play a bigger role in the startup's strategy, becoming catalysts in the success of the venture*

We expect to see more VC's becoming a 'value add' and closely aligned with the early stage founders they invest in, but at the moment they are few and far between.

VC's play an important role in the progression of early stage seed ideas to growing, purposeful and even profitable ventures. By helping founders to grow and innovate in a responsible way that puts and values founder market fit before projections and profit predictions will also make VCs more 'founder friendly' and differentiate them from their rival funding firms who are still focused on products and profits.

Dan Simmons is the Founder of Propelia and has spent the last 20 years helping startups and founders strategically leverage their thinking, brand and unique proposition to disrupt new market sectors and open up new market categories.

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