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Specialisation is the trend for European VCs

As Europe’s venture capital ecosystem continues to swell with capital and new people, many VCs are competing more than ever to secure their preferred returns: so too are LPs and founders. To give them an edge in the competition, many VCs today are looking for ways to clearly differentiate themselves.

For a small number of VCs, they achieve this through exceptional brand power, such as through listing the companies they’ve backed or drawing from partner track records. At its extreme, you can see this in storied VCs such as Benchmark Capital, the early investor in Uber and Tinder. Benchmark’s website has only a single landing page featuring their logo and contact details, and that’s all they need.

Such a well-known and prestigious VC as Benchmark doesn’t need to sell itself to people, but rather people have to find their way to Benchmark. Such star power allows Benchmark to easily participate in hot deals with the best founders, and have their pick of which LPs they want to work with.

The problem for most VCs, however, is that this sort of brand value is very hard to obtain and only tends to come to a seasoned VC with a lot of high-profile portfolio companies under their belt. That means that if a VC doesn’t have that brand power now, they have to go for a totally different strategy to differentiate themselves and thus secure founders and funding.

A change in approach

Over the past ten years, this has meant many VCs have been pushed towards specialisation. Specialisation sees a VC focus their investments towards a particular market niche: investing only in companies at a particular stage, located in a certain region, working in a certain sector, or at an intersection of any of these three.

This strategy comes with costs, since it means a specialist VC can lose access to many investment opportunities from the start. However, specialisation also allows VCs much-needed differentiation to prospective portfolio companies and investors, in the form of their networks and expertise in their respective sector, stage or vertical.

> *This can be vital for justifying the value of a VC that doesn’t have colossal brand power.*

Given today’s market environment – where founders increasingly can pick and choose their investor – it is not surprising that there’s a strong trend towards ever-greater specialisation among Europe’s VC funds. But when we talk about specialisation, we should avoid the temptation to simply assign a binary split between “specialist” and “generalist” VC funds.

Things on the ground are much more nuanced: there are some totally generalist funds, and there are also some hyper-specialised funds that focus on companies from a particular region or a specific stage that are operating in a particular sector, but these two examples occupy the extreme ends of a spectrum. In reality, most funds sit somewhere in the middle.

The Speedinvest way

For example, our team at Speedinvest invests in European seed-stage companies, but within that stage and regional niche we have a great degree of generality, since we have five sector-focused investment teams within our fund. So, while we’re specialised according to stage and region, as a whole fund we’re not specialised according to sector since we have separate teams working across verticals like fintech, deeptech and industrial tech.

Such a model that mixes breadth, depth of networks and sector expertise in a targeted fashion can help VCs distinguish themselves clearly against the competition when looking to attract founders and LPs. But it also serves the broader startup ecosystem well, with VCs being better able to help early-stage founders across many industries benefit from their networks and expertise.

Running such a model is very ambitious and can be costly, as it requires a much bigger and deeper team than the traditional VC setup. Rather than the usual small, senior team without much company infrastructure, we run an operation of more than 80 people across six offices and two continents. While it’s more ambitious as a strategy, we also believe it’s beneficial for our founders.

With the *VC industry maturing*, leading to larger funds and much more competition across all stages, we should expect smaller firms to move towards the specialist end of the spectrum. Conversely, more established firms with greater resources and more capital under management will build multi-sector setups that allow them to demonstrate their deep sector or domain matter expertise, while still offering their LPs a diversified portfolio.

All of this means it may not be particularly helpful to just split VCs between “specialists” and “generalists”. More importantly, successful firms will know where their talents are best used – either as generalist platforms that offer diversification and breadth while still having to find their angle towards value add, which is a much easier task if they put their management fees to work, or at any degree of specialisation that allows them to tap into a market niche with their expertise.

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