

A promising portfolio, booming trends and investing remotely with Northzone

With #QVCS, Maddyness profiles different funds to give founders and entrepreneurs the information they need to choose the right investor. Today, we speak to Michiel Kotting and Wendy Xiao Schadeck, partners at Northzone, an early investor in category-defining businesses like Hopin, Spotify, Klarna, Personio, Spring Health and Trustpilot.

Could you each tell me a little bit about your career to date and what your current role at Northzone involves?

Wendy: I'm a partner at Northzone. I joined in 2015 part-time while I was working on my startup CoHatchery, which was a coworking space with onsite childcare. Prior to that, I was getting my MBA at Columbia and before that, I worked in management consulting for a few years trying to help the industries that were disrupting the companies that we're backing.

At Northzone, I'm currently heading up the New York office and I'm also leading some of our thinking into the connective tissues between European tech and US tech, as well as developer tools, B2B healthcare and consumer.

Michiel: I have a technical background, originally studying physics. After being a consultant for a while, I went to the US to do an MBA at Harvard. There, I got bitten by the entrepreneurial bug.

I spent my whole second year trying to start a company on graduation, moved to San Francisco and pitched our ideas. I pitched to 104 VCs before someone decided to invest in us. It made me really respect the process and feel for entrepreneurs. The company used AI to mimic the behaviour of salespeople. It was really exciting, and we built that up to 50 people and then sold the company to Shopping.com, where I joined the team. That experience taught me so many things that helped me work with entrepreneurs, and the journey ended in an IPO.

I came back to Europe, started another company with the backing of Accel, but the company failed. The relationship remained, and I spent seven years at Accel as an investor and partner. I did three co-investments with Northzone and really loved the team here. Five years ago, I came to Amsterdam to join Northzone as a partner to focus on data, software, marketplaces and the power of network effects.

What does your current portfolio look like?

Wendy: I would say there's two main angles, as I look at investing in tech adoption in general. There's the people's side and the tool side: for the latter, I'm constantly tinkering on what's new that's being built in the market in terms of technology and being able to understand the trends around those.

One example of that is crypto and the web infrastructure for it. I spend a lot of time using people as a guiding light and evaluating how much utility value there is in these technologies. I do this by looking at the enthusiasm around the developers that are touching this technology, because usually they're the first adopters.

In my portfolio, I have Livepeer, which is a decentralised video infrastructure meant for devs that taps into mining hardware to help stream live video at a much lower cost compared to the existing setup. There's also Magic Link, which is a passwordless authentication platform for developers using public private key encryption as the backbone of authentication, replacing passwords.

On the people side of what I do, there's already so much great tech that's been built, but it hasn't really been adopted or penetrated into major parts of our economy yet. If you just look at this area - especially in the US healthcare, for example - it's a huge part of the economy. But most of those people are still offline and trading in print and paper.

Looking at how these industries adopt tech is a very different journey and it's looking more at processes and finding the entrepreneurs that can thread the needle in the right way, and sometimes taking the newer pieces of the composable technology that's been built and packaging it up in a way that they can test and iterate these business models at a very low risk compared to before, raising capital based on these types of iterations.

We've invested in a company called Spring Health, which is bringing mental healthcare directly to consumers through their employers. It's commonly done here in the US through telemedicine, which is a relatively commoditised piece of tech, but adopting it in this way broadens the access and opens up the economy so much more on the mental healthcare side.

Another example is an unannounced home services company that helps small home services owners build their businesses tech first from the ground up. This gives tradespeople like plumbers, painters and roofers a tool kit to be able to build their startup the same way as a Silicon Valley tech startup.

Is there a particular industry that you really get excited about?

Wendy: I've been deep in the crypto rabbit hole ever since I joined Northzone and I randomly fell into it by connecting with the people that were building in the early ecosystem. They were very, very enthusiastic about the technology in such a way that I had never seen before. People that were early on the ecosystem are truly idealists, so I still have a really soft spot for that group and that movement.

It's been really interesting watching that technology touch different industries that we invest in in different ways, and actually bring value to people and businesses. It always starts with the developers and it's starting to touch consumers in new cases that are outside of speculation, but of course, within speculation as well. Now, we're seeing for the first time real institutional adoption.

Michiel, what are you currently working on and do you also have a favourite sector?

Michiel: If I kind of look back over sort of the last 10 years, I think there's two settings that I've really enjoyed working with entrepreneurs in. The first is where product centricity meets either a complex business model or a complex setting.

I think you see a lot of that in marketplaces and B2B software: if I look at what was happening at Vinted and Fiverr, where I was on the board, what you see is that these companies went through different phases as early adopters, therefore building a platform and bringing in other people, changing dynamics and really playing a chess game while growing three times in size every two years.

With a lot of those companies, it was easy going early on. Then, you start hitting a certain scale of complexity and renewal where you need to go to a new customer set as you're used to growing 200% or 300% a year. All of a sudden, you flatten off and need to figure out how to break that mould. Once you've done that, there's actually hyper acceleration going on. I think going through that with companies has been phenomenal.

The second set of companies I've really enjoyed or I'm enjoying working with is taking a very strong technology angle and then simplifying it into a business solution. With my own background in AI, I see machine learning not as a solution, but as the engine of a car and without transmission, good tires and aerodynamics, nothing works. These people come up with a very smart engine, but then spend probably 80-90% of their time building out the right kind of product. Spacemaker is one of the companies in the portfolio who really innovated on how architects go through the early phases of designing a project.

The nice thing is with the advances we've seen in technology, software is addressing every sector. It means that many more either deep technical solutions or business model accelerations are starting to happen.

How has COVID impacted Northzone? Do you feel like you're coming to the end in it, or is it something that you're still working against?

Wendy: I think in the first phase of the pandemic, most VCs spent a lot of time working with their portfolio on the uncertainty that ended up seemingly not as negatively impactful as we thought, but there were definitely a few months where that took up the majority of partners' time. Capital planning, headcount planning, thinking about forecasting demand slowdowns or accelerations were also key, and I guess we should have spent more time on the latter because that's what ended up happening.

So many of our sectors saw an incredible boom during this time. Tech adoption seemed to have really accelerated five years or so, especially in areas like healthcare and video streaming media. I think the pace stayed pretty constant in terms of dollars deployed, but we still saw a lot more, especially at the earlier stages.

I think even two years ago, people were saying "Silicon Valley is dead, there's no more new business models, Amazon and Google have won" and you would never invest in or seed a consumer media social media platform. Now, we've seen so many of those. We've seen new formats be experimented with - audio particularly being a breakout format - and so many new concepts that are much bolder than before, attracting more capital in general.

Personally, it's been great to watch some of our portfolio companies accelerate. I think that in addition to healthcare and video, Northzone itself has had ten new unicorns in our portfolio out of 60 active companies in the past year or so. And in those sectors - as we just discussed, in healthcare and in video - *Hopin* is an extreme example of that.

I think interacting with entrepreneurs has been really interesting over video. We've made investments over video: sometimes in people we've met at least once or twice before in person, but sometimes in people we've never met in person. We rely a lot on references and due diligence, but I think we're able to get comfortable with someone over video.

Before COVID-19, would you have ever

considered investing in someone if you had never met them in person?

Michiel: No, it definitely changed. I must say, I miss my partners. Everything becomes a lot more utilitarian when you go from call to call versus if you have a meeting in person.

When COVID happened, a lot of our companies were very well capitalised. And like Wendy said, at that moment, there was a huge reaction from entrepreneurs across the board to take drastic action in a very uncertain situation. That's what entrepreneurialism is: it's really seeing how people respond when it's hard, not when capital is abundant and everything works really well.

Across the portfolio, it's been super impressive. Last summer, there were a couple of companies very heavily hit because they were in sectors that were lockdown sensitive. On the opposite end of the spectrum, we saw some companies going completely crazy and through the roof because they were such a right fit for the time and the moment.

But, to me, that was all phase one of the lockdown of saying, "How do you respond immediately to a lockdown?" The reaction to the ongoing recession is crucial, and some companies are very recession savvy. Others will suffer more from it.

I think the nice thing is because everyone responded so well at first, most of our companies have a lot of dry powder. This means that even though the market might be more depressed, there's a really good chance to accelerate. Capital has been really abundant and with everyone switching to align, it is easier to invest internationally.

What trends and technologies do you predict will boom in both the near and more distant future?

Michiel: I think the companies that hyper benefitted from lockdown will come a bit more towards Earth. But I think the nice thing is, like Wendy was describing, we're not going from World A to World B, back to World A: we're going to a hybrid format.

I predict individual usage of newer digital tech will slightly go down, but the movement of the masses towards consumption, online interaction, online work,

remote working and so on is still in the process of happening. For example, we have a couple of companies with construction tech software and they have been an industry that was reluctant to adopt new digital platforms, but they now all have moved to Microsoft Teams and Zoom and on top of that are implementing all kinds of digital software that they would normally never use.

Wendy: I'm probably the partner that spends the most time on Reddit threads, scrolling on TikTok and observing Gen-Z behaviour. It feels like there has been this mindset that's been, for the most part, crossed for most consumers in terms of trusting the internet like that. That was a big hurdle at one point and I don't think that people acknowledge that enough, such as trusting banking online, trusting real estate transactions online, or trusting signing things on DocuSign versus in person. Once you cross that, you're a lot more willing as a consumer to start experimenting with other versions of it.

Going on from this, I expect we will start to see tech commoditising and disrupting itself. Maybe you've tried a neobank and now you're ready to have a bunch of different types of banking relationships, or maybe rotate across different ones because it's not as painful as it used to be to have to go to the bank branch and transfer your account and get the physical checks printed. So, from a consumer perspective, I expect we'll see a lot more iterations of different types of business models across some of the sectors that have crossed that hurdle.

I think healthcare is another one that's interesting and probably going to cross the hurdle soon. I don't think we're fully there yet, but if you can have a telemedicine appointment with your therapist on one platform, you might be able to now accept having your primary care physician primarily interact with you online through telemedicine.

On the business side, I think consumer-enabled models of tech adoption that are product-led are going to become really, really important: even more important than we've seen so far, with companies like Slack pioneering that 'bottom's up' product-led adoption.

What one piece of advice would you give to founders?

Wendy: Invest in a coach early on and surround yourself with a group of people that have different perspectives on your journey. It's so important because so much of the journey is working on yourself, the learnings that you've had and how you internalise and use that. It's more of a learning process than anything if it's your first company. People that have been able to accelerate their own learning and development and apply it immediately after have been the ones

that have surprised me as I've observed and invested in them.

Michiel: Hire way more impressive people much earlier than you think. When you're as small as a team of 20 people, try to get some heavy hitters on board that you think would never work for you and bring them into the company.

Try to understand the journey of a company. The early days are when your business model, focus and scope will rapidly change a number of times. You need to really understand the very large steps that you're taking rather than the nitty gritty KPIs. Really line that out for yourself and internally communicate it clearly so people know what you are trying to achieve.

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