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Planning tomorrow: VC and Startup predictions for 2024

Ethics, Regulation, AI, Climate… VC and startups share their most exciting predictions for the year 2024, filled with promises and new challenges.

Taco Engelaar, Senior Vice President at *Neara*

Climate-tech will step out of carbon's shadow

For the longest time, the climate-tech landscape has been dominated by innovations that focus solely on reducing carbon emissions – from offsets to removal projects. But perceptions are changing. Scepticism around carbon reduction methods combined with increased exposure to the tangible effects of climate change – like flash floods, wildfires and power outages – is opening people's eyes to the sector's broader potential. It's already estimated that the climate crisis is causing *$16M* worth of weather damage every hour, leading to huge disruption for communities across the globe. In 2024, we can expect to see the conversation centre increasingly around technology that can help tackle this and keep people safe and connected during what were previously 'once in a generation' weather events.

Alongside this, we'll see an even greater urgency to progress the green energy transition. The renewables sector is set to double in value over the next decade; but alongside investment in renewable energy itself, there will need to be a focus on making sure it can be effectively shared and transmitted. A huge part of this will involve using tech to harness the latent capacity that exists within current systems to enable more clean energy to flow through the grid and into our homes. From proactively strengthening energy infrastructure to using AI-powered simulation to model the effects of extreme weather and increase network capacity, allowing other forms of climate-tech to step out of carbon's shadow will help us to tackle the complexities of the evolving climate crisis.

Steve Salvin, Founder and CEO of *Aiimi*

We'll see 'AI tortoises overtake AI hares in 2024

In 2024, the real winners and losers will emerge from the race to embrace AI – and the results may surprise you.

AI is developing at a dizzying pace. And, with the rise of public models like ChatGPT helping to make the technology widely accessible over the last twelve months, individuals are rushing to experiment just as quickly. Everyone wants a slice of the AI pie, and it's not hard to see why.

AI can help with everything from automating the most repetitive of tasks and streamlining processes in our work and everyday lives, to creating content and unearthing new information. In short, it can make individual's lives easier and reap endless rewards for businesses.

But scrambling to adopt AI poses far greater risks to users than being slightly slow off the starting block. Unless used correctly, AI can also jeopardise data security and point users to irrelevant or even inaccurate information. Potential loss of IP, privacy breaches, and misguided decisions risk becoming the downfall of AI hares who have rushed to leverage the technology. Whereas AI tortoises who have taken the time to vet AI models and their own data before it's used (ensuring information is well-governed and high-quality) have everything to gain.

AI tortoises will win out for their more measured, strategic and safe approach in 2024.

Khyati Sundaram, CEO of *Applied*

Recruitment-AI will get worse before it gets better

Recruitment is just one of very many applications of AI. But the increasing use of AI to expedite hiring decisions is where the technology's impact will be felt acutely in our everyday lives in 2024 – and where it risks causing the most harm.

The problem starts with the data which AI models are trained on. For models trained on historical data, existing gender, age, and racial stereotypes will be the only picture of 'success' they know and look to replicate. Giving these models power to decide who does and doesn't get hired will therefore set us back in a fight for diversity we are yet to win.

To change this picture, we must change the way we train AI. Models which have been trained on non-historical data, or data that has been cleaned of historical bias, can actually prevent human bias from influencing hiring decisions.

The ethical AI revolution is coming and it holds a fairer future. But until ethical AI exists for the purpose of fairly scoring and ranking candidates, hiring decisions must rest with human hiring teams.

Dr Anas Nader, CEO and Co-Founder of *Patchwork Health*

Calls for clearly defined AI regulation will intensify in healthcare

Generative AI will undoubtedly continue to make significant waves as we head into 2024, becoming more advanced and more easily integrated into broader tech functions to support day-to-day business operations. I think the most important aspect of this will be the potential to be used ethically as a tool to streamline and automate manual and repetitive tasks.

Within large-scale organisations like the NHS, for example, this could help to significantly reduce the administrative burden faced by clinicians and free up more clinical time to spend with patients.

For this to be achieved safely and effectively, we must see a greater push towards establishing clearer and more defined AI regulation. With more solid guidelines about the way we can use AI safely, organisations such as the NHS will have a better idea of how to successfully integrate AI tools into their work to help tackle major challenges, such as the waiting list backlog, while continuing to maintain the safety of staff and patients.

Read also

Meet Patchwork Health, the comprehensive, tech-enabled workforce solution for healthcare organisations

Griffin Parry, CEO and co-founder of *m3ter*

To attract investment, tech companies increasingly must demonstrate a path to profit. You can no longer defer the questions about how you achieve profitability – and it's not enough to just achieve revenues.

Not so long ago, companies could achieve huge valuations based on the number of users, even if they didn't know how to monetise them yet. Early social media companies like Facebook and Twitter are key examples. But now, companies needed to answer the monetization and profitability question earlier.

To compete with the Goliaths of tech, UK and European players can use pricing to their advantage. The success of unicorns has a direct correlation with having a good pricing model.

Pricing is about addressing market inefficiencies. The right pricing model helps to allocate resources more effectively, ultimately enabling sustainable growth of our economy. m3ter's mission is to ensure software is priced at its true value – for both sellers and users.

There will be an 'AI-washing' phenomenon in 2024, which will come back to bite software companies as it could decrease investor and public confidence in their products, and in AI technology.

Read also

Meet M3ter, the metering and pricing engine for SaaS companies

Henry Mason, Partner at *Dawn Capital*

A pick-up in deal volume in Europe next year

The market has now recalibrated towards the ‘new normal’ on growth in particular, and investors and founders are becoming more aligned in their expectations. This bridging of the expectation gap, along with the fact that technology such as GenAI is providing operational efficiency to compensate for lower growth, is set to unlock more funding rounds in 2024.

Evgenia Plotnikova, General Partner at *Dawn Capital*

AI will continue to be a key investment area as well as a disruptor to every software category in 2024

Foundation models will start being commoditised and cost of training will continue to decrease. Value will accrue to hyperscalers, chip makers, open source model providers and highly verticalised players finding lock-ins in implementation, workflows and proprietary data. Enterprise will look not just for quality but also for governance, security and privacy, opting for vendors that offer this. We will start seeing a shift in the way software is delivered and consumed, with natural language processing and hyper-personnalisation taking over more traditional user experiences.

Phil Edmondson-Jones, Partner of *Oxx*

The dry powder fallacy, and why 2024 will see more later-stage VC activity

Over the course of 2023, commentators highlighted the large value of ‘dry powder’ – committed but unallocated private capital – in the venture and growth ecosystem, as many believed that this would lead to a sudden acceleration in deal activity.

Despite strong early stage VC momentum at the Seed stage (primarily gen AI and climate-tech); this hasn't been seen at the scale-up or growth stages, bar a few exceptional cases. This has happened due to:

- the supply of dry powder being overstated, because of high rates of completed and expected internal investments (to support existing portfolio companies) and lengthening of fund deployment periods; as well as
- the demand side for capital being materially reduced, as a consequence of startup's reducing burn and cautiously approaching fundraising in an environment of slower performance and volatile valuations.

We're likely to see a steady re-acceleration in later stage venture activity throughout 2024 (rather than a sudden explosion), as the macro recovers, valuations and expectations stabilise, and company performance improves.

Gökçe Ceylan, Investment Professional at *Oxx*

It's getting harder to sell SaaS, even though SaaS spend is increasing: 2024 will reward the providers that focus on product-market-fit and customers

Even though SaaS spend increased in 2023, it's actually getting harder to sell software for growing startups. Against a backdrop of layoffs, cost cuts, and zero-based budgeting, many companies' SaaS spend increased in 2023. Across the board, spend increased as a total by 18% to $197b.

But, this is by no means to say it's become easier to sell software in 2023. In fact, renewals are an ever larger proportion of all SaaS purchases (81% last year, versus 70% in the previous year). The increased difficulty in selling SaaS within a market where companies are investing more in these solutions has meant that not all players have benefited equally from this trend.

Growing SaaS providers have been forced, at large, to ask: how 'mission critical is our product to our users'? Some providers jumped in to enable companies to 'do more with less' amidst layoffs, fearlessly increasing prices as much as over 20%; while others witnessed increased churn rates and a stall in new client acquisition. That's why 2023 has been a year for many to go back to the drawing board to reassess the fundamentals of their businesses.

However, SaaS will thrive in 2024. SaaS providers that double-down on showcasing the value and ROI of their products, and invest heavily in ensuring their customers not only adopt but continuously derive value from the software, will emerge stronger and more resilient in the evolving market. 2024 will continue to be a reminder that product-market-fit is a spectrum that goes beyond the initial fit, and encompassess the adaptability of a product amidst changing customer needs.

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