Founders: 5 things you should know about the investor mindset for 2024

It's nearly Xmas o'clock, nearly the new year, that'll be 2023 - done. Like many founders, many VCs won't be switching off over the festive period. What we will be doing is plotting for the next rollercoaster phase of our new startup and investing world.

I'm a VC investing in technical founders who are transforming how the world works – i.e. how we manufacture things, move them around the globe and manage the back office. Real world application of technology stuff. So how we use the current downturn to our collective and societal advantage is top of mind for me and my team. Our goal for next year is to think about how to leverage dire economic conditions to clear out the old ways and enable new business-shifting efficiencies – and therefore productivity – via startups' innovation. Because it's adversity that creates magic – we (VCs in particular) only learn from bad times, never the good.

For context, early stage VC hasn't been bitten too hard, yet. Average raise levels and valuations at the earliest stages across Europe haven't really changed *but* there is a high degree of variation, and deal count has fallen through the floor across all stages. *Average pre-seed is still around €1M – €4M with the average seed round at €3.2M – €8M*. However, later stages (A+) are really struggling compared to any other year looking back a decade.

All of this means a renewed focus on quality. No more metaverse, crypto, or escooters. Just quality fundamentals startups solving serious fundamental problems. Our investors are demanding it, so we are, and therefore you must.

So here are five things that are on my mind, which will hopefully mean they're on other VCs' minds – and therefore should be a helpful framework for founders to think about approaching investors next year:

My portfolio's ability to leverage economic crises. Many investors, and pretty much all of my founders, have never experienced an economic downturn. I've fumbled through the last three. Advice I give to founding teams is to leverage these conditions and listen to clients – new and potential – see if what you hear in the current context in terms of pain points, wish list, feedback, differs from anything you have heard before. Right now, it's not about Ford's faster horses but about really listening and spending real time with key people – both clients and investors – ideally in person. Then use these new insights to tweak or pivot your product, test/iterate/validate quickly, lean into new trends, make a play for a new ICP, new product, new thing in a new way – in short, it's time to be *bold*. Turn the red ocean blue. Because tomorrow's (10 year) overnight success starts now.

Startups who understand the macro context. Whether it's recession in the US, sticky high interest rates, Russia and Ukraine, Israel and Gaza or the next humanitarian / conflict / economic shock, the big picture matters. People's mood matters. And smart investors will constantly look for startups who are aware of this, and are building for the next era – no matter how niche their product might be. So think of smart ways to reference this in your pitch materials, and inform investors on how this changing landscape is impacting both your clients and your competitors.

Truly appreciating greed and fear, and what this does to human behaviour. The business of starting-up is adapting to a new (temporary) paradigm of fear, with the shift in the investment world from a period of growth to one of caution. 'Smart progressives' can leverage these conditions in 2024 – it's about projecting what new trends and themes will come through that will impact your roadmap, and showing investors that you're planning for them, that they can take comfort in the fact that you are on top of change when others might not be.

The growing VC gap. You'll read more about VCs merging, being bought, or radically changing tactics than you've heard before. Generally this is code for "we can't raise new funds so we're stepping out". No one will lose sleep over a VC losing their job and for the broader picture it's no bad thing for the whole industry to renew and refresh. Personally, I'll be thinking where this gap is relevant to our strategy, and how we position ourselves in it. As a founder, I'd be thinking about which VC portfolios I will *now* fit in, in our new world.

The LP mindset. Raising capital is a two-way game – we're raising from our investors just as startup founders raise from us, but the world changed in 2023 and it hasn't all fully washed through yet – the energy in the room is still twitchy. IPOs are down, deal count is down, the amount pledged to VC next year from LPs is massively down. Without this full flow of capital, top to bottom, and *then* recycled post exit we're not running a circular system which never ends well.

So be bold, show your adaptability, and align with VCs' renewed focus on quality and macro-awareness – that's my VC advice for startups to thrive in 2024.

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