

The State of European VC: the mid-stage gap and a return to smart money

Mikael Johnsson, the cofounder and Managing partner of European SaaS investor Oxx, shares his observations on the European software investing market.

Temps de lecture : minute

29 June 2023

I was recently asked whether I think there's too few growth stage firms in Europe. I don't. Neither do I think there's too few early stage firms. There's a plethora of firms and money at each end of the spectrum. The challenge lies somewhere in between where companies have established product market fit, but haven't yet built a scalable and predictable go-to-market machine to reach what we call Go-To-Market Fit.

European VC: there's a gap in the middle

Firms that find themselves at this stage need capital for scaling but can't yet deploy the large amounts of money that growth funds want to invest in an effective and efficient manner. Instead they need more nimble capital for building and testing the platform for long-term sustainable growth, and the capital required for this also goes beyond what the early-stage specialist firms can invest.

That means there's a need for specialist investors who plug the gap between the early and the growth stages, both in terms of risk-appetite and capital amounts invested, but also in terms of understanding, expertise, and ability to effectively support these companies as they

embark on building a platform for long-term sustainable growth.

The return to smart money in European VC: the days of exuberance are done

There's another huge consideration here, which is that it's clear that the years of exuberance and excess are behind us and that we're returning to an age of "smart money". This means there will be significantly less money invested into venture as an asset class, my personal guesstimate is we'll see a $\frac{2}{3}$ drop compared to the height of the market, which would put us more in line with the long term median amounts invested.

This also means there's going to be a really tough culling of both startups and VC firms. Way too many companies have been funded over the last few years as a result of the availability of cheap capital. Many of these companies will not be able to raise more money or turn their business around to profitability. Some will be consolidated through M&A, which is going to increase dramatically over the next 6-12 months, but many businesses will go under or fade away into oblivion. This is equally true for VC firms, many of which have been established over the last couple of years and therefore lack a track record so will not be able to raise another fund.

Differentiation: SaaS companies genuinely don't think about it, and that's weird

We invest in SaaS founders, and there's one thing that I've noticed: not enough attention is paid to positioning and differentiation. These may seem like simple marketing processes, or even buzzwords. But I don't see anywhere near enough of them. The average team we meet hasn't given this anywhere near enough thought, and yet it's probably the most fundamental strategy piece for building a really large software company.

Personally, I'm passionate about positioning -- how to make a company stand out in a competitive market and create sustainable competitive advantage. And if you've found product market fit and want to build out your go-to-market, positioning should be the first stop on that journey. Product is an important aspect here, but too many teams think too narrowly about positioning and end up in a feature pissing contest that isn't necessarily creating much value. The key thing is to focus on unique differentiated value, which can be multifaceted across product, price, technology, go-to-market, ICP, use case, vertical, eco-system, channels etc.

What next?

All the points above are linked. As VC money becomes scarce, and 'smarter', SaaS companies with great, differentiated and intelligently positioned products are more likely to raise money, and to gain genuine momentum with customers in a straitened market. As a specialist software investor with a couple of decades in the game, it is our role to use our experience to point founders towards growth, and lift the lid on best practices and hard-won learnings. And, critically, to keep investing (sensibly, as always) during the times when money isn't as easy to come by. Sure, there may be a darker global economic outlook, but good companies and good founders always win out.

Mikael Johnsson is cofounder and Managing partner of [Oxx](#).