JANUARY VENTURES

EARLY STAGE FOUNDER SENTIMENT REPORT

2023

In our fifth consecutive year surveying early stage startup founders we found that 2023 is a year of transition. Fundraising appears to be stabilizing for pre–seed and seed stage companies, even as companies cut costs and work off tight runways.

Yet, the question that our survey data brought up is who is this transition serving – and more broadly, who is venture capital serving? What we found is female founders and founders of color continue to have less access to networks for early stage fundraising and experience operational, financial and social barriers as they build their companies.

At January Ventures we believe that the institutionalization of the pre-seed round will open up more opportunities for a broader set of founders. We focus on pre-seed companies bringing legacy industries up the digital curve particularly in health, climate and future of work. We invest in founders with great ambition and deep expertise, rather than just backing those with a certain pedigree. This survey is part of our mission to make venture capital more accessible and transparent. We hope our findings will begin a conversation between entrepreneurs, investors and the broader tech ecosystem on how we can create the future together — with equal opportunity for everyone to build the next generation of tech.

A sample of 437 founders across North America (60%) and Europe (40%) was collected between June to September 2023. Of the founders surveyed, 44% had raised an angel/pre-seed round, 26% had not raised at all yet and 24% had raised a seed round.

48% of respondents were female and 53% were persons of color with 58% of respondents between the ages of 25 and 40 years old.

This is one of the largest and widest-ranging surveys of early stage founders across the US and Europe, and it reveals founder-specific needs at this unique moment in time.

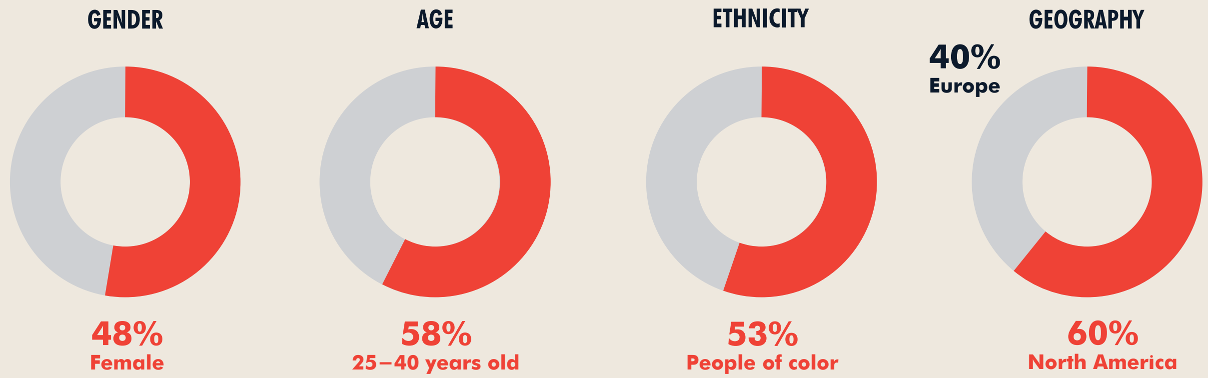
CAPITAL RAISED

44%
Have raised pre–seed funding

27%
Haven't yet raised funding

24%
Have raised seed funding

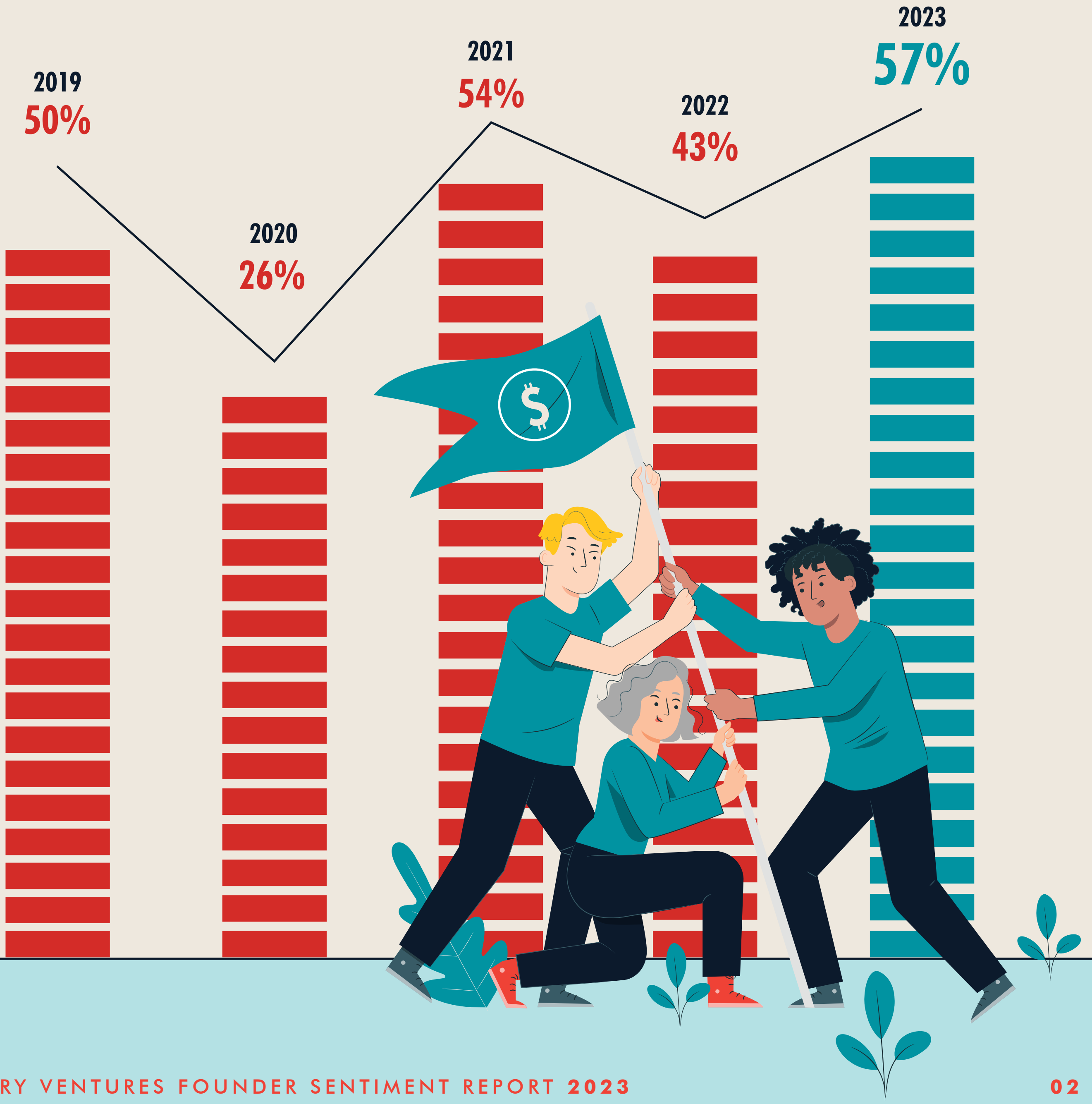
5%
Series A and beyond



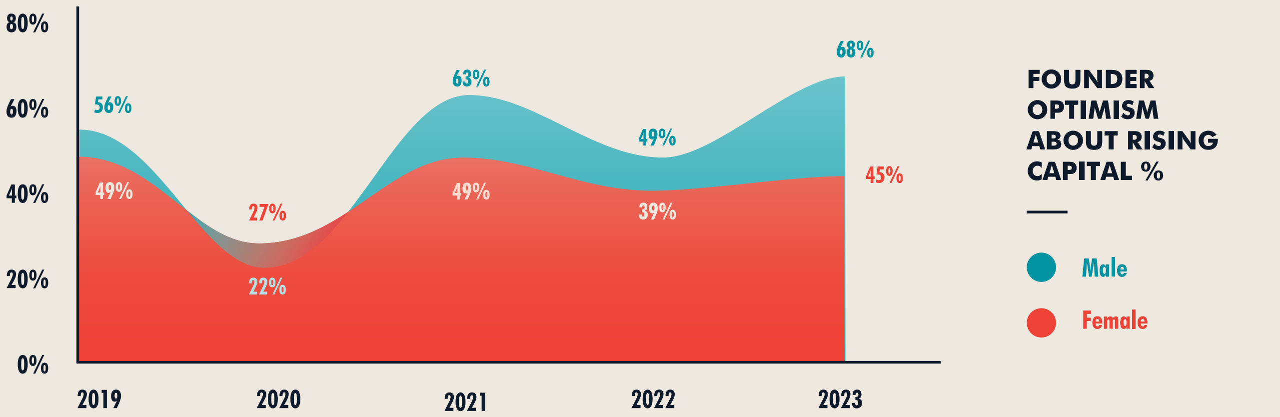
Have we hit bottom? Early stage founder sentiment indicates the fundraising market may be coming back.

Despite current fundraising concerns, founders' optimism about their ability to raise capital is at a five-year high, and 57% of early stage founders are more optimistic about their ability to raise capital versus nine months ago. If you believe early stage founder optimism is a leading indicator for the startup environment, this could be a sign the market is rebounding.

% OF FOUNDERS THAT FEEL MORE OPTIMISTIC ABOUT THEIR ABILITY TO RAISE CAPITAL VERSUS 9 MONTHS AGO



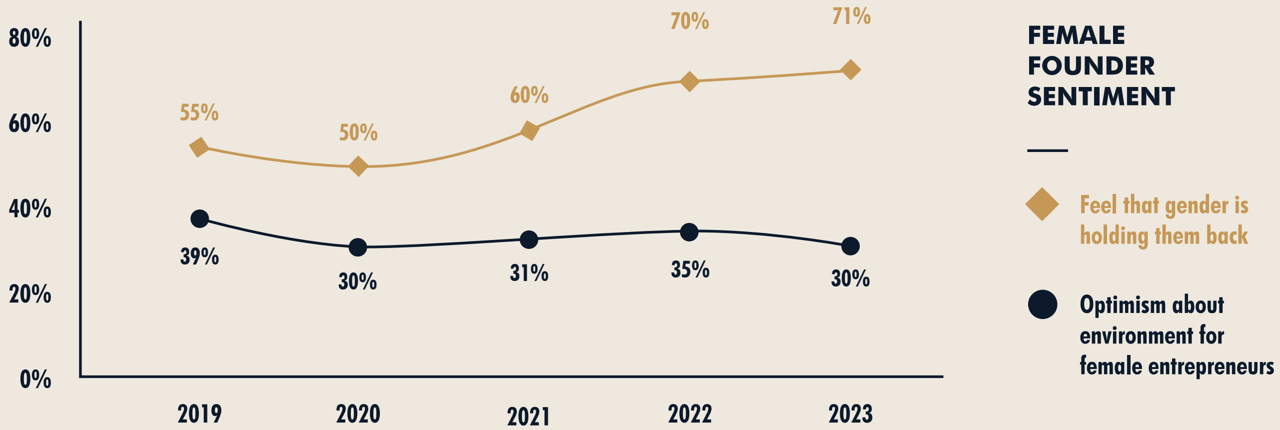
Yet, the gulf between male and female founders remains wide: 50% more men than women feel optimistic about raising capital.



Fundraising sentiment clearly highlights the gender gap in fundraising, as 68% of men versus 45% of women feel optimistic about their ability to raise capital. In addition, female founders are making changes to their fundraising plans: 47% of women indicated they had paused their raise or faced issues with raising capital (compared to 32% for men). Black and Latinx founders are facing similar challenges, with 49% reporting they had paused their raise or faced issues fundraising.

Female founder optimism is at a five-year low.

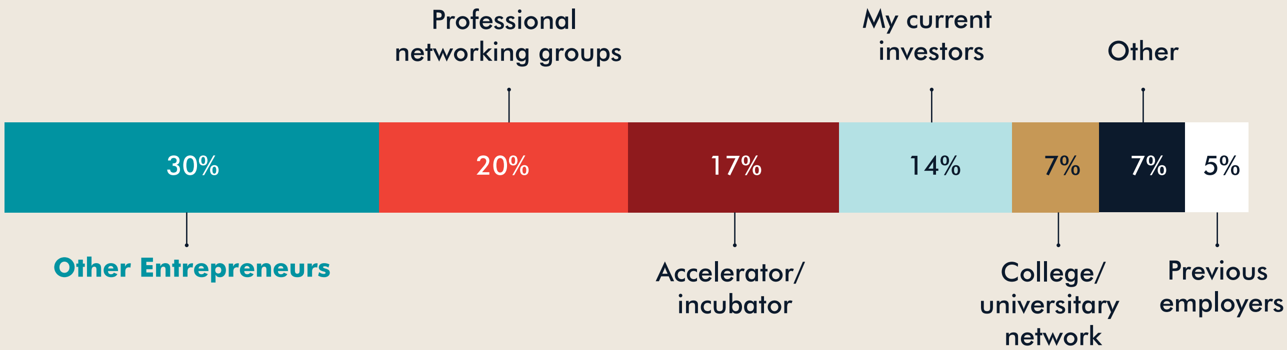
Despite the spotlight that #MeToo put on bias and discrimination six years ago, many female entrepreneurs still do not find the VC environment hospitable to women. Only 30% of female founders feel optimistic about the environment for female entrepreneurs, which is a five-year low. Conversely, 71% of female founders feel that their gender has held them back or created challenges for them as an entrepreneur. As one founder put it, "Venture capital has always been tough on women."



The environment is even worse for female founders of color. Not only were they more likely to view gender as a detractor, but only 19% of female founders of color were optimistic about the environment for BIPOC founders. There is more to be done to bring female and underrepresented founders into the fold and, as one Afro Latina founder said, "help venture capital unlearn their conscious and unconscious bias when it comes to receiving pitches [from founders of color]."

If you want to raise an early stage round, spend time with other founders. They are the best intros you can get for fundraising.

WHAT NETWORK IS/HAS BEEN THE MOST IMPORTANT FOR FUNDRAISING?

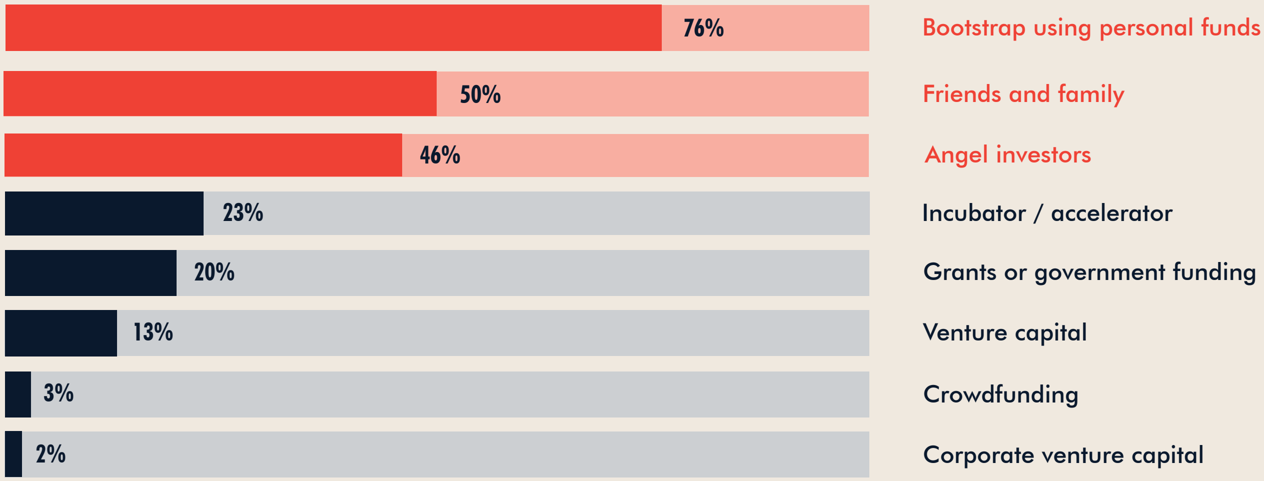


The largest number of founders (nearly 30%) said other entrepreneurs were their most important network for fundraising, followed by professional networking groups at 20%. Surprisingly, college/ university network was one of the least important networks for founders.

There was little variability by race/ethnicity or gender, which suggests a strong network of other founders could be an equalizer to the warm-intro dilemma. There is a continued need for "increasing opportunities to [founders] that don't have a natural network," suggested one founder.

If you don’t have personal capital or friend-and-family money, it’s difficult to raise a pre-seed. Only 13% of pre-seed companies raise capital from an institutional VC.

% OF PRE–SEED FOUNDERS THAT RAISED FROM EACH ENTITY



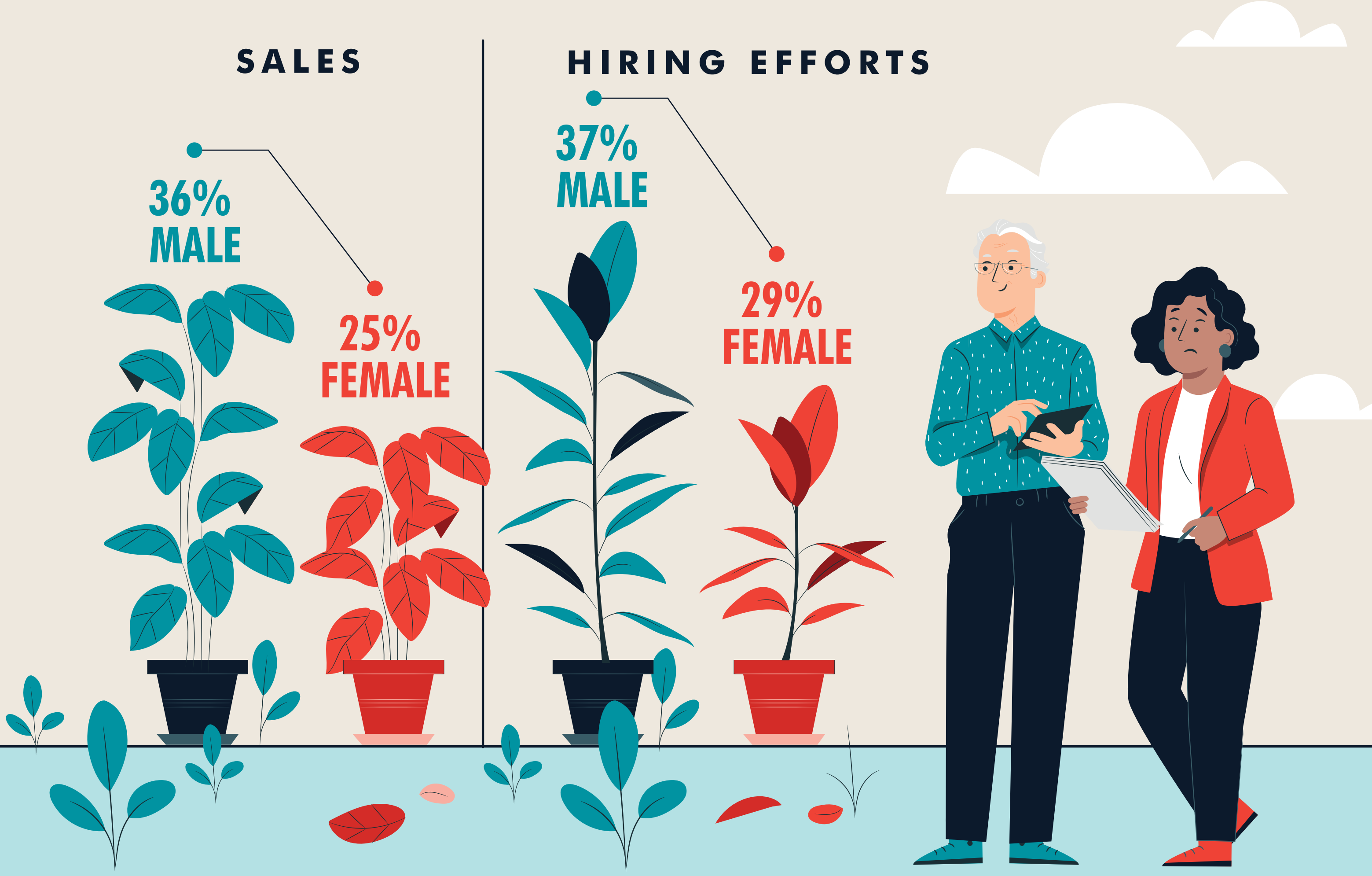
The most common ways founders are funding pre-seed companies are by bootstrapping using personal funds (76%), friends and family (50%) and angels (46%). BIPOC founders were less likely to fund via friends and family (46%) — a state much lower than white males at 57%. Friend-and-family rounds tend to exacerbate the “liquid wealth gaps" between historically marginalized groups[1].As one female founder of color put, “It’s...really hard to [raise an] angel/friends and family round when you don’t have those people within your network and know who is actively investing.”

1.https://techcrunch.com/2023/04/06/friends-and-family-investment-funds/

Male founder networks are accelerating their sales and hiring efforts.

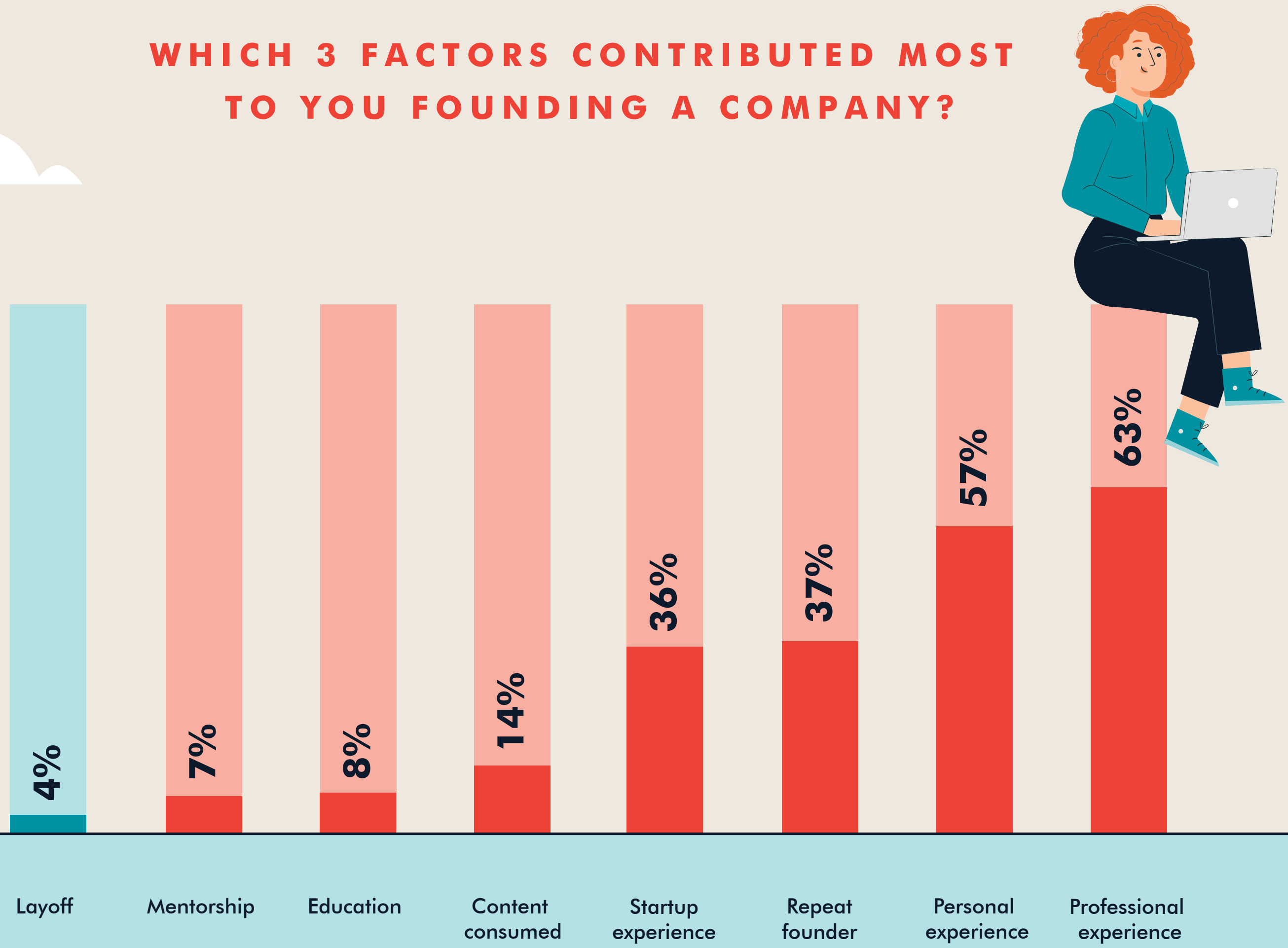
Female founders experience a disparity in how helpful their networks are for sales and hiring: 36% and 37% of male founders found their networks very helpful for sales and hiring efforts, respectively, while only 25% and 29% of female founders felt the same. The “network” gap between male and female founders is part of a vicious cycle, with fewer venture dollars going to women who are then undercapitalized from the start.

HELPFULNESS OF THEIR NETWORKS



So far, layoffs aren't leading to a significant number of new company formations: only 4% of respondents said a layoff contributed to them founding a company.

WHICH 3 FACTORS CONTRIBUTED MOST TO YOU FOUNDING A COMPANY?



More than 93,000 tech workers were laid off in 2022, and there were hopes a startup boon would follow[2]. Yet, only 4% of respondents said that a layoff from a full-time job contributed to them founding a company. Newly started companies from layoffs may still occur (or those laid off will be picked up by startups), but for now most founders are starting their companies due to a past professional (63%) or personal (57%) experience within the sector in which they are building.

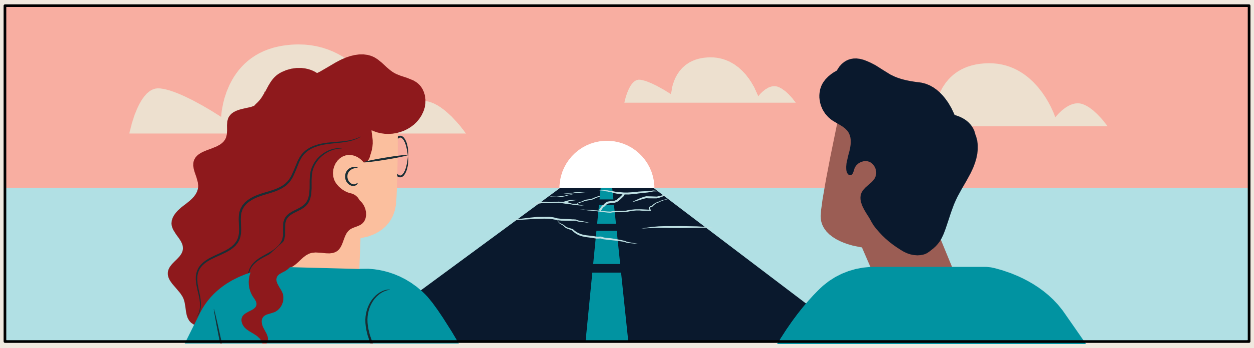
2.https://news.crunchbase.com/startups/tech-layoffs

In this macro environment, fundraising takes up the most time for early stage founders.

TOP 3 TASKS THAT TAKE UP MOST OF FOUNDER TIME

The majority of founders (73%) indicated that fundraising takes up most of their time. The percentage was even higher for Black and Latinx founders (76%). This data supports another finding: investors are retreating to their existing networks during this recent downturn. More than half (54%) of founders felt that investors are backing people they already know and/or are focusing more on their existing portfolio. One Black founder called out, "As an underrepresented founder in a white, male-dominated venture capital landscape, I am lacking true warm intros to investors."

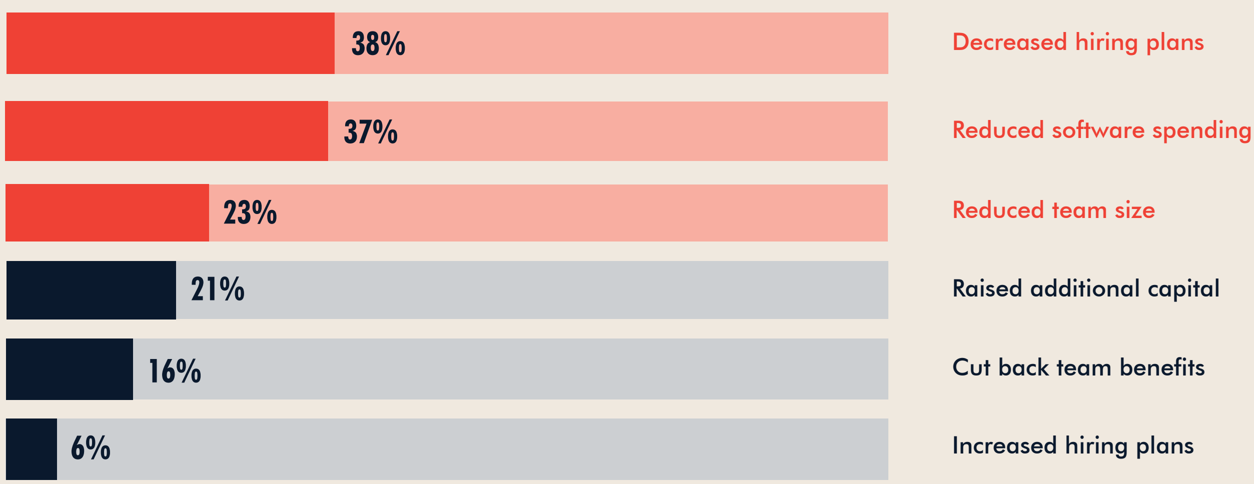
Runways continue to be short: similar to last year, 85% of early stage founders have less than 12 months runway.



Early stage founders are strapped for cash: 85% have less than a 12-month runway. This is similar to last year, where 81% had less than 12 months runway. In the face of financing woes, founders are encountering difficulty raising. In fact, 39% of founders have paused their raise or faced issues with raising capital.

To extend runway, early stage founders are hiring less and cutting software spend.

% OF FOUNDERS THAT HAVE TAKEN THE BELOW STEPS TO PREPARE FOR CHANGES IN THE MACROECONOMIC CLIMATE



Much like in big tech, startups are making team changes to reduce costs – at a much higher rate than in recent years. 23% of startups have reduced headcount and 38% have decreased hiring plans (compared to just 6% and 12%, respectively, in 2022).Yet, team changes are not the only action founders are taking. Beyond team-related changes, startups are most likely to reduce spend on software solutions, most commonly cutting go-to-market spend (e.g., advertising). In addition, 59% of startups have implemented AI into their business, which could help drive efficiency and reduce costs.

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