

Welcome to the 5th Edition of Public School Ventures' School Bulletin!

In this month's 'Bulletin' you will find:

1. [Lecture Hall Insights: Timing in the VC Ecosystem](#) - Delve into the principle that 'the best ability is availability' and its relevance in the shifting sands of VC. This section will dissect the perils of the middle ground in VC, drawing parallels with the competitive dynamics of the NBA, and reflect on the lessons from recent years' funding frenzy.
2. [Conference Recap: Lessons from Manifest 2024](#) - Reflect on the first conference of the year for Public School Ventures, sharing key takeaways from Manifest: The Future of Supply Chain & Logistics. Highlights the dialogues around AI, automation, and 3PLs, through the lens of panel discussions and notable speeches.
3. [Tech Lab Discoveries: AI's Pioneering Paths](#) - Explore the transformative impact of AI across industries, from healthcare to commerce. Highlight Databricks' vision for AI-integrated databases and discuss the balance between innovation and integration critical for AI startups navigating this new frontier.
4. [Economic Studies: VC Market Analysis](#) - Navigate through the changing landscape, examining the effects of macroeconomic trends, the reevaluation of SaaS pricing models, and the importance of portfolio construction amidst evolving market conditions.
5. [Research Seminar: AI and Vertical Integration](#) - Investigate the fusion of AI with vertical applications, spotlighting the rise of sector-specific AI solutions and the ongoing innovations that promise to redefine industry workflows and enhance operational efficiencies

1. Lecture Hall Insights: Timing in the VC Ecosystem

The age-old sports adage, '**the best ability is availability**,' rings especially true in the world of VC. Gone are the days when the middle ground was a haven. Whether in politics, sports, or professional realms, the middle once signified a broad appeal. Yet, as I find myself a millennial now entering into middle age, the once-comfortable middle ground has become a bleak crutch.

The dichotomy is apparent, particularly in my beloved NBA: you're either in a full-blown chase for the championship or embracing the rebuild. But languishing in the middle (read: Atlanta Hawks or Indiana Pacers) is a fate worse than losing.

The sugar rush of 2020 to 2022 in VC, fueled by zero interest rates, saw an explosion of funds and capital raised. But, akin to my faltering attempts at a low-carb diet, this period bred unsustainable habits, setting the stage for a crash of a correction that looms like a hangover after a raucous party.

A few quotes from my conversations this month offer insights into the brewing storm:

- **"Venture was never supposed to be comfortable,"** an emerging manager quipped, highlighting the existential quandary some VC firms face. It's a stark reminder that the comfort zone is the graveyard of ambition especially in this risky asset class.
- **"Next year will be the venture market's bottom,"** a seasoned fund manager specializing in climate tech predicted. He suggested that patience would be a virtue, predicting a vanishing act for many of the funds that had ballooned in size during the zero-interest rate era.
- **"Perhaps we overhired,"** pondered a Managing Partner from a Tier 1 VC firm, foreseeing an 18 to 36-month purge akin to post-party cleanup with inadequate tools.
- **"Newer firms might get washed out,"** a VP at a top Fund of Funds shared the stark premonition that many nascent firms, born in the recent boom, might be doomed to oblivion by market forces, serves as a sobering reminder of the volatile nature of VC asset class.

Adding to the complexity of the current VC landscape, insights from an executive coach to VCs and founders reveal nuanced challenges within the workforce and partnership dynamics:

- **Engineering leadership over operational readiness:** There's a noticeable trend of companies prioritizing engineering leaders over operators, suggesting a focus on building before scaling. This preference indicates a shift in hiring priorities amidst the technological evolution and market demands.
- **Local presence vs. remote flexibility:** Despite the rise of remote work, there's a strong desire for local team members, underscoring the value of proximity in certain operational and strategic functions.
- **Middle management's uncertain future:** The abundance of mid-level talent facing unemployment (at startups and VC funds) points to a broader industry recalibration, with many organizations reevaluating their team compositions and operational strategies.
- **The aftermath of partnership breakups:** The breakup of VC funds due to toxic partnerships has left many individual investors wary of recommitting too hastily, suggesting a period of introspection and reevaluation before re-entering the fray.

Further complicating the venture landscape, a conversation with a private equity firm eyeing venture investments shed light on the apprehensions at the top:

- **West coast VC firms on edge:** A Managing Partner from a premier west coast VC firm expressed nervousness about the future of VC investing, particularly the viability of cloud-based point solutions/SaaS. This firm's new quest is to become more influential in the tech-enabled space reflects a broader industry search for sustainable, impactful investment paradigms.

These discussions paint a picture of a venture capital ecosystem at a crossroads, where strategic patience, operational agility, and a keen eye for emerging opportunities will define the path forward for funds and firms navigating these uncertain waters.

As another edition of the School Bulletin unfolds, the conundrum of VC's future direction persists. How will venture capital navigate its next chapter? Where will savvy investors plant their flags? The prospect of top-tier funds facing the chopping block and the redistribution of LP allocations looms large.

Finding myself in a Donell Jones moment, pondering my place in this evolving narrative, I'm reminded that venture capital is inherently a domain of financial alchemy and audacious gambles. The industry yearns for groundbreaking ideas and the audacious souls willing to champion them. Amidst this backdrop, "timing is everything," and patience transforms from a mere virtue into a strategic compass.

A mentor once told me, **"The essence of venture capital success is longevity and securing ample playing time."** Much like the sports mantra from which this reflection draws inspiration, success in VC isn't merely about placing bets but about enduring the marathon to witness those bets bear fruit. Thus, every fund and investor questions whether to chase immediate glory or amass the assets for a future dynasty, akin to the Oklahoma City Thunder's strategy.

As we stand at the crossroads, contemplating the venture capital ecosystem's imminent evolution or upheaval, one truth remains unchallenged: venture capital is a long game. It's a marathon dotted with strategic sprints, where perseverance, foresight, and, indeed, availability dictate the path to victory. In venture capital, as in life and sports, the greatest ability truly is availability.

2. Conference Recap: Lessons from Manifest 2024

Kicking off 2024 with my first conference attendance at Manifest: The Future of Supply Chain & Logistics Conference was both enlightening and invigorating. The event served as a vibrant forum for sharing pioneering ideas and fostering discussions that promise to shape the future of logistics. Among the highlights was a presentation from a DHL Supply Chain representative, who shed light on their AI solutions and automation efforts. Despite her understated delivery, the content resonated with the audience, particularly her call for increased venture capital in picking and packing solutions to combat the high attrition rates, which startlingly range from 40 to 70 percent.

Ryan Peterson from Flexport added another layer of insight, emphasizing the potential of transforming the supply chain into a growth engine. His remarks about Flexport, the only top 100 freight forwarder born in the age of the modern web browser, underscored the critical balance between leveraging technology and navigating the intricate challenges inherent in logistics, such as those exemplified by the Suez Canal blockade.

The panel discussion I moderated dove deep into the intricacies of crafting an ideal customer journey within the logistics domain. Joined by industry stalwarts Smitha Raphael (SnapFulfil), Raj Ramanan (AxleHire), and Simon Kalouche (Nimble), we explored the indispensable role of technology, strategic partnerships, and a profound understanding of customer needs. Simon Kalouche's analogy comparing 3PLs to NFL kickers—crucial yet often underappreciated—perfectly captured the essence of the challenges and high stakes involved in logistics today.

Manifest 2024 wasn't just another industry conference; it was a convergence of visionary insights that reaffirmed logistics' pivotal role in shaping commerce's future. The blend of technological discussions and human-centric solutions spotlighted during the event provided a comprehensive view of the logistics landscape's complexity and potential. It was an honor to contribute to this dialogue and a fantastic way to start the conference season of 2024. For a closer look at the engaging panel discussion on the ideal customer journey in logistics that I had the honor of moderating, you can view the session here: [Manifest Panel Discussion](#).

The next three sections are themes that emerged from what I read this month ([link](#)):

3. Tech Lab Discoveries: AI's Pioneering Paths

The evolution of Artificial Intelligence (AI) continues to captivate the imagination, reshaping industries and redefining the boundaries of what's possible. Databricks' recent insights suggest a future where AI is not just a tool but a foundational element of technology, likening the next evolution of databases to 'Lakehouses'—databases imbued with AI and machine learning capabilities designed to sit alongside vast pools of data. This integration heralds a future where AI's role is not merely supportive but integral, automating and enhancing data analysis and decision-making processes across sectors.

In healthcare, the promise of AI to lift margins by 5-10% offers a tantalizing glimpse into the potential for transformative efficiency and efficacy. However, the journey towards widespread adoption is fraught with challenges, notably the trust deficit among clinicians and healthcare buyers. The success stories of models like Google's Med-PaLM 2 and Hippocratic, outperforming traditional algorithms, underscore the critical role of AI in revolutionizing healthcare, from patient engagement to back-office operations.

The realm of commerce is another frontier where AI's potential is rapidly unfolding. Brands and retailers are leveraging AI for more than just operational efficiency; they're exploring disruptive applications that promise unique value, such as AI-powered design tools and autonomous procurement platforms. This shift is driven by the need to adapt to rapidly changing consumer trends and demands, with AI positioned as a pivotal tool for agility and innovation.

Amidst this landscape of opportunity, the challenge of navigating the AI era is not lost on enterprise AI startups. Founders are encouraged to focus on solving high-value customer use

cases, leveraging proprietary data to build a competitive moat, and finding synergies with incumbent systems. This approach underscores the nuanced balance between innovation and integration, highlighting the critical strategic considerations that underpin success in the AI-driven marketplace.

Sources:

- [Databricks' insights on AI and Lakehouses](#)
- [The role of AI in healthcare and commerce](#)
- [Strategic considerations for AI startups](#)

4. Economic Studies: VC Market Analysis

The VC world is witnessing a period of introspection and recalibration, influenced by macroeconomic trends, technological advancements, and shifts in investor sentiment. The backdrop of this evolution is marked by the proliferation of VC-backed companies and the significant dry powder accumulated during the fundraising boon of 2021 and 2022. This surplus, coupled with changing market dynamics, prompts a reassessment of strategies, from investment focus to fund management.

One notable trend is the paradigm shift in SaaS companies' pricing models, moving from per-seat to usage-based schemes. This change reflects a broader industry move towards more flexible, value-driven pricing strategies that better align with customer usage and perceived value. Additionally, the decline in climate tech funding by approximately 30% in 2023 signals a reevaluation of investment priorities and a potential pivot towards sectors with more immediate growth prospects or clearer paths to profitability.

In the face of these changes, the importance of portfolio construction has never been more pronounced. The strategic decisions around check size, investment volume, and diversification are critical levers in achieving desired returns and managing risk in an increasingly volatile market. This heightened focus on portfolio strategy underscores the growing sophistication and strategic nuance within the VC sector, as firms strive to adapt and thrive amid shifting market conditions.

Sources:

- [Trends in VC-backed companies and funding](#)
- [Shifts in SaaS pricing models](#)
- [The importance of portfolio construction](#)

5. Research Seminar: AI and Vertical Integration

I've always been a fan of Vertical SaaS. But now since AI, I'm starting to see more investors come to the bandwagon. The integration of AI into vertical applications represents a significant

evolution in the technology's application, promising to redefine workflows across finance, healthcare, legal, and more. This integration challenges the traditional silos and fragmented data landscapes, offering more cohesive, context-aware AI solutions that address the unique needs of specific industries.

The development of Vertical AI highlights the increasing specialization of AI technologies, tailored to enhance industry-specific processes and unlock new efficiencies. Companies like Harvey and Casetext in legal, or EvenUp in finance, exemplify the burgeoning ecosystem of Vertical AI applications that cater to nuanced industry requirements. This trend towards specialization is mirrored in the broader tech landscape, where the focus shifts from generalist AI applications to more targeted, sector-specific solutions that offer tangible business value. Moreover, the rapid advancement of AI technologies, such as the novel 'Hyena' approach for enhancing large language models (LLMs), illustrates the ongoing innovation within the field. These developments not only expand the capabilities of AI but also highlight the continuous need for startups and established firms alike to stay at the forefront of technological progress to maintain a competitive edge.

In conclusion, as AI continues to evolve and reshape industries, the venture capital landscape simultaneously undergoes its transformation, influenced by economic pressures, investment trends, and the relentless march of technological innovation. The interplay between these domains underscores a dynamic ecosystem, ripe with opportunities for those willing to navigate its complexities with insight, agility, and strategic foresight.

Sources:

- [Scaling Verticals' insights on Vertical AI](#)
- [Innovations in AI technologies and their impact](#)
- [The intersection of AI with industry-specific solutions](#)

My readings this month enabled me to explore AI's new frontier, the shifting dynamics within the VC landscape, and the emergence of specialized AI applications. The researched reminded me of the evolving interplay of technology and VC. As these sectors continue to develop and intersect, staying informed and agile will be key to navigating whatever the future may hold.

Can't believe you made it this far. That's it for this month's School Bulletin. As always thanks so much for taking time to read and please email me at earnest@earnestsweat.com if you have any questions, if you are looking for any specific types of investments at the early stage, or if you actually made it to the end of the edition.

With gratitude,

Earnest Sweat
Public School Ventures