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The pre-seed round 2022-23

From FOMO to JOMO: VCs shift from rapid growth to long-term risk aversion

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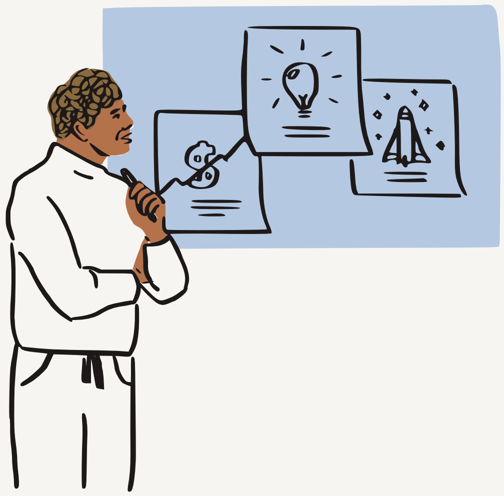


Introduction

With venture capital allocations on a sustained decline, startup founders looking to raise money in 2023 face an uphill battle. Deals at the earliest stages have been hit especially hard: year-over-year funding for these new startups dropped by about half in Q2 2023. Investors making pre-seed deals amid these headwinds are focusing intently on long-term profitability over shorter-term growth, and startups at this earliest stage need to show VCs that their fledgling companies are built with a sustainable path to profitability in mind, decreasing VCs' investment risk.

For the fourth year in a row, DocSend is reporting on trends in pre-seed fundraising. With unique pitch deck data, we study how startup funding rounds change over time and spot new trends as they emerge, helping founders prepare for fundraising even in challenging macro conditions.

We surveyed over 200 pre-seed startups during 2022 and the first half of 2023. We also analyzed pitch deck data to understand what goes into a pre-seed raise in today's market and how investor scrutiny has changed as fundraising experiences shift due to changing market conditions. Our 2022-23 report shows that risk aversion is driving VC funding decisions, with the FOMO-fueled emphasis on growth giving way to "the joy of missing out." VCs who are allocating capital now focus on financial projections that accompany monetization plans and traction metrics as key deck sections. These investors have future profitability and decreased risk in mind.

Founders: key findings for successful fundraising

Shift from growth to profitability to minimize risk

VCs lean in on traction, business model, and financials sections in 2023.

Show how your traction and monetization plans are integrated

VCs gave more scrutiny to business model and traction sections in decks that didn't get funded.

Roadmap your product's path to long-term success

Successful pre-seed companies linked their product and business model sections at the start of their decks, showing how monetization flows from their unique solution.

Avoid elaborate pre-seed competition sections

The competition section saw the biggest year-over-year drop in investor scrutiny.

Note: The dataset for this report spans two years: 54% of our data comes from 2022 with the remaining 46% from 2023. The 2023 data is representative of the entire set.

Investor activity wanes further while founder competition remains keen

By the end of H1 2023, the investor-friendly climate grew more entrenched. The current climate seems likely to remain tilted toward risk-averse investors, meaning that founders need to sharpen their storytelling to instill confidence in VCs and stand out.

Comparing two different climates: fundraising activity, Q2 2021 vs. Q2 2023

Investors

↓11.5%

less engagement with pitch decks

Founders

↑16%

sent out 16% more pitch decks

Pitch decks = your life raft for funding

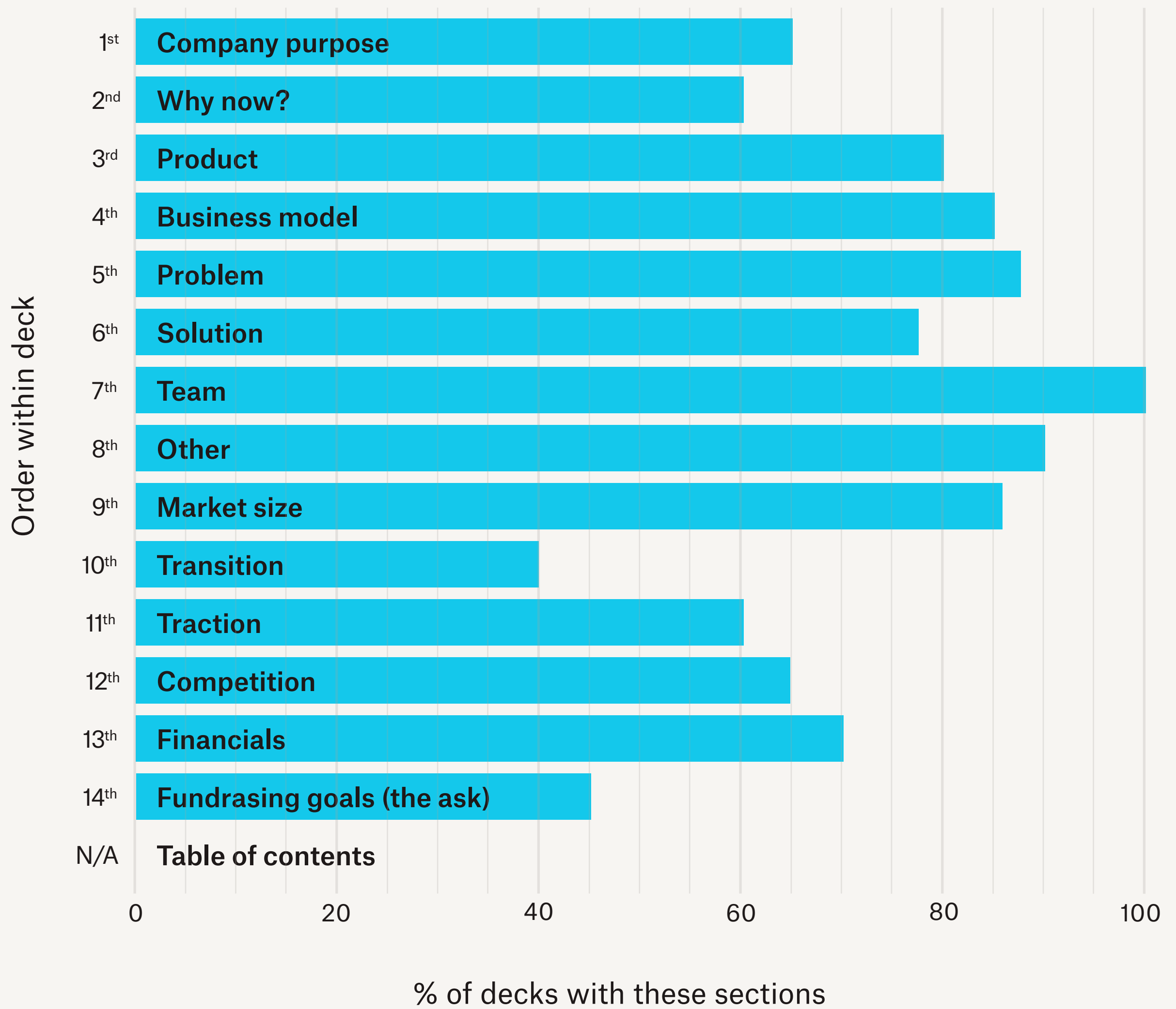
As investor engagement remains flat (at best) in 2023, pre-seed founders can expect VCs to spend less time than ever reviewing their pitch decks. Your narrative and order of slides—with fewer words saying more—is key.

The order of sections within decks varied for successful and unsuccessful companies. The former tended to foreground their product and business model sections, placing them near the beginning of the deck (and before the problem and solution sections). By contrast, unsuccessful decks placed their product and business model sections near the middle of the deck, often preferring to foreground the team section instead. Given many VCs' interest in startups' paths to profitability, highlighting up front how a business model emerges organically from the product may be a winning tactic for pre-seed founders.

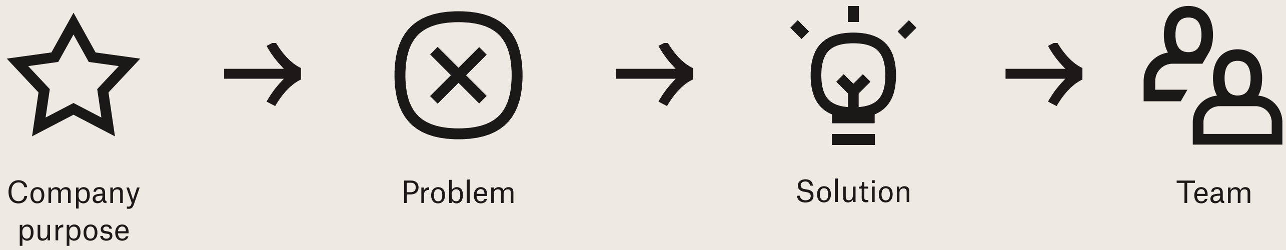
Timeliness is also important for pre-seed companies: successful decks put their "Why now?" sections at the front of their decks, whereas unsuccessful ones buried theirs in the middle.

The successful pre-seed opener 2023

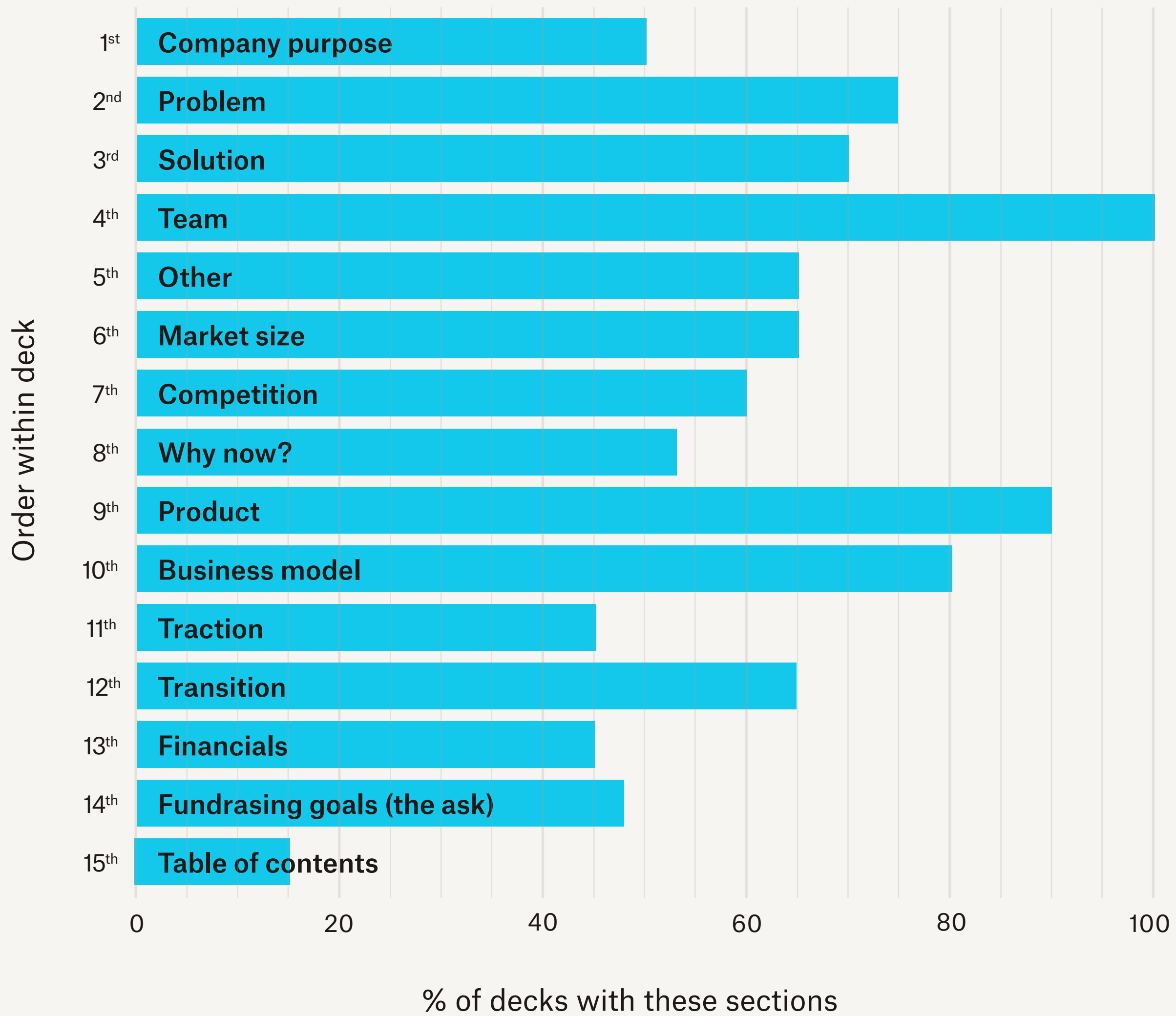
The successful pitch deck flow



The pre-seed unsuccessful narrative



The unsuccessful pitch deck flow



Since investors in 2023 analyze financials sections carefully, founders may opt to make this section a key part of their narrative; many successful founders did so (70%), whereas less than half of unsuccessful founders included one (45%). Few companies had a table of contents in their deck, and one way to streamline decks and keep VCs engaged is to cut extraneous sections like these.

The team slide is a pitch deck staple, but it's also one that can cause many founders headaches. Include brief bios of core founding team members with an eye toward showing how this is the right group to solve your business problem. Provide LinkedIn links so VCs can quickly look up team members. There's no need to include advisors in a team section; this information is less impactful than many founders realize and can distract from more important team details that should feature front and center.

The takeaway

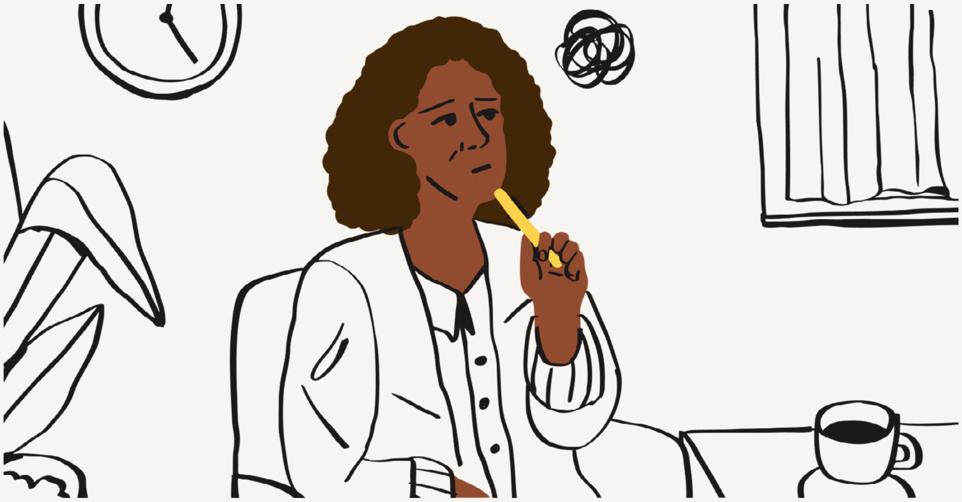
With pre-seed decks growing shorter, founders need to be ruthless during the editing process. Aim to cut excess words from slides, remove slides or sections that don't clearly advance the narrative, and make sure a broad readership can quickly understand your story.

Deck review times continue to fall as VCs hone in on profitability metrics

Pre-seed deck review times fell in 2022 compared to 2021, and again in 2023. This drop tracks with trends across all fundraising rounds; as VC activity has waned, their average time spent scrutinizing decks has fallen. The rate of change was more significant for successful pre-seed founders in 2023 (a 16% YoY drop compared to 7% for unsuccessful founders), but VCs remain quick to "get to no" when reviewing decks that don't pass muster.

VC time reviewing decks falls further in 2023

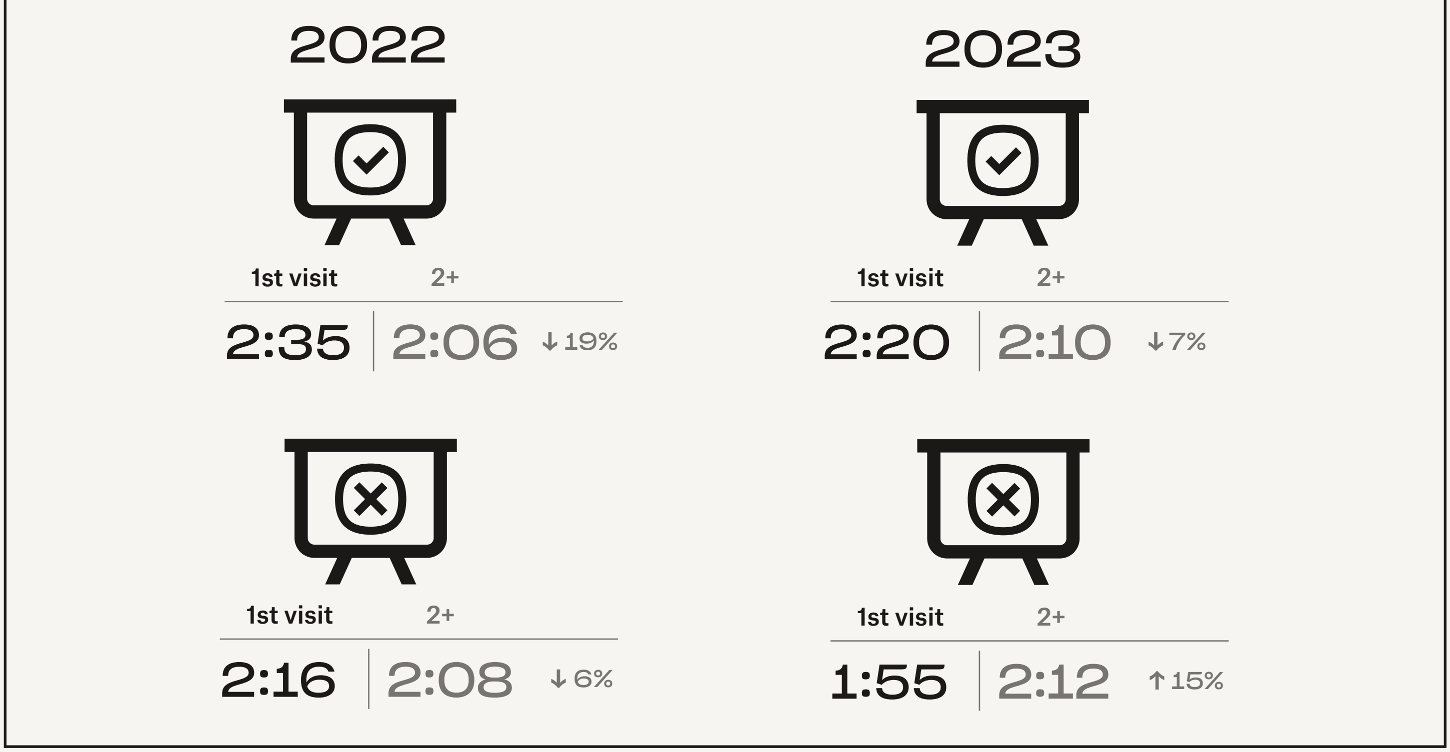
	Overall VC time spent reviewing pitch decks	VC time spent on successful decks	VC time spent on unsuccessful decks
2022	2:42	2:46	2:13
2023	2:12	2:20	2:04
Change	↓19%	↓16%	↓7%



Subsequent review times in 2023 diverged for pre-seed founders. For successful decks, the delta between first and subsequent visits tightened from 19% in 2022 to just 7% in 2023. However, unsuccessful decks received more subsequent scrutiny in 2023 than in 2022. The delta here increased to 15%, suggesting that risk-averse investors were evaluating the cost of missing out (COMO) on potential disruptors, even when they weren't impressed by an initial read.

Despite an overall drop in deck viewing times in 2023 compared to 2022, VCs have actually increased the amount of time spent on the business model, traction, and financials sections. These increases signal that founders should look to tell concise stories about their companies without skimping on sections that should demonstrate solid long-term planning to investors.

From JOMO to COMO: avg. VC time spent for first vs. subsequent visits



2023 VC trends suggest long-term profitability is a top concern

- Finances matter, even at the earliest stage; fourth-longest viewing time in 2023
- Business model and traction sections remain key
    - 48% more time on business model section in 2023
    - 25% more time on traction section in 2023
- Extra scrutiny for unsuccessful decks
    - 110% more time on traction section in 2023 vs. 2022
    - 85% more time on business model section

The business model and traction sections remain key differentiators for pre-seed companies, even in starkly different fundraising climates. In the current macro environment, investors are especially concerned with startups' long-term road to profitability. They have shifted away from the "growth at all costs" mindset that was prevalent at times when investor capital flowed more freely. This mindset saw many early-stage startups raise at significant valuations, but it also fueled the creation of zombie companies—startups earning just enough to service debts without performing well enough to justify earlier valuations.

VCs in 2023 have looked to nip this trend in the bud. They spent more time evaluating the business model and traction sections of pre-seed decks in 2023 versus 2022 (48% and 25% more time, respectively). But they also paid special attention to companies' financial sections, spending 60% more time on these sections in 2023 (averaging the fourth-longest time of any section).

The competition section had the biggest year-over-year drop in VC scrutiny. Rather than avoiding this section, founders should keep it brief and readable, allowing VCs to focus on the story as a whole.

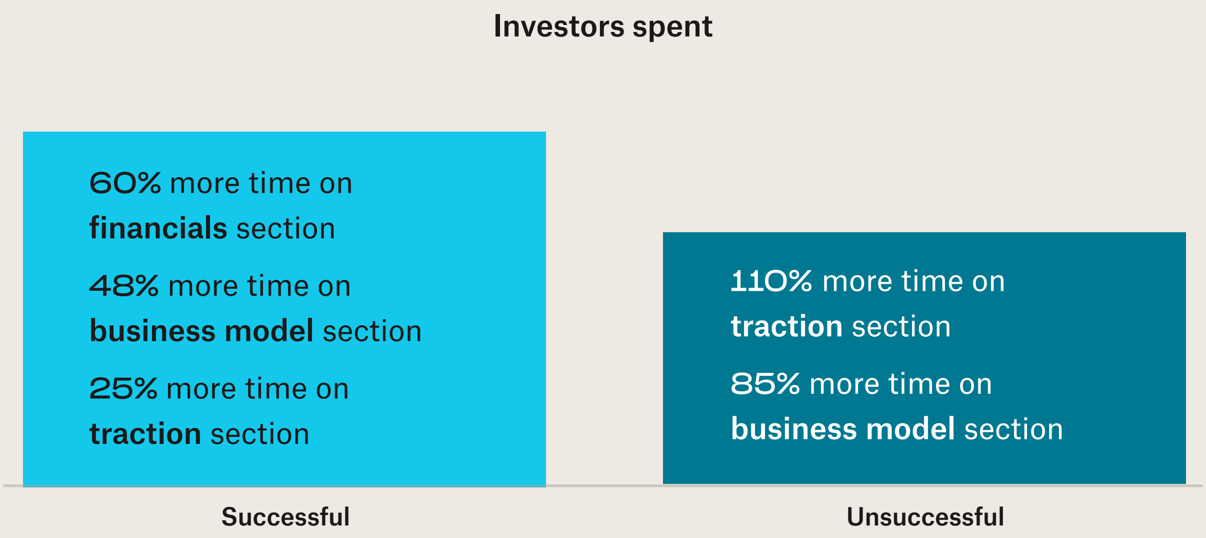
The takeaway

Business model and traction sections are always crucial, but in 2023 pre-seed founders should prepare these slides with an eye on the long term. Show investors that you've set yourself up for success by incorporating long-term thinking into these sections, indicating that future profitability, not immediate growth, is your goal.

Showing financial discipline in a concise financials section is an effective way to demonstrate this longer-term perspective.

Keep your competition section concise: briefly analyze a handful of key players in the field and indicate at a glance how your company differs. Resist the temptation to indicate that you're operating in "blue sky" territory with no competitors—VCs see these statements as extra risky.

Pre-seed scrutiny 2023



Business model: succinctly focus on the long term

Although deck-viewing times are falling overall, pre-seed founders can afford to be more expansive in this section since VCs are willing to spend time understanding monetization plans. Founders should still aim for easy-to-understand business models that show scalability, but in the current environment it may also be wise to show investors how your business model and path to profitability might evolve over time. Aim for a balance of thoroughness and clarity in this section: VCs spent more time on pre-seed business models in 2023, but they gave extra scrutiny to the business models of decks that didn't get funded. This may be due to VCs struggling to understand overly complex monetization plans at a time when attention spans are short.

Traction: convincing, future-oriented metrics

VCs spent more time on the traction sections of successful decks in 2023 compared to 2022, but they spent even longer evaluating the traction sections of unsuccessful decks (25% more time and 110% more time, respectively). As with the business model section, VCs in 2023 are willing to spend time analyzing pre-seed traction metrics. By the same token, if these metrics aren't convincing or are confusingly presented, VCs will give even more critical scrutiny to these deck sections.

Pre-seed founders should present a few meaningful traction metrics clearly without complicating the picture with more numbers than early-stage companies can convincingly show. Again with an eye on the longer term, founders may choose to show how current traction will fuel future profitability.

Financials: show responsible spending

Less than half of pre-seed companies have historically included a financials section in their pitch decks, but in 2023 that number rose to about 60%. Investors rewarded companies that included this section by spending considerable time on it: this was the fourth most-scrutinized deck section in 2023.

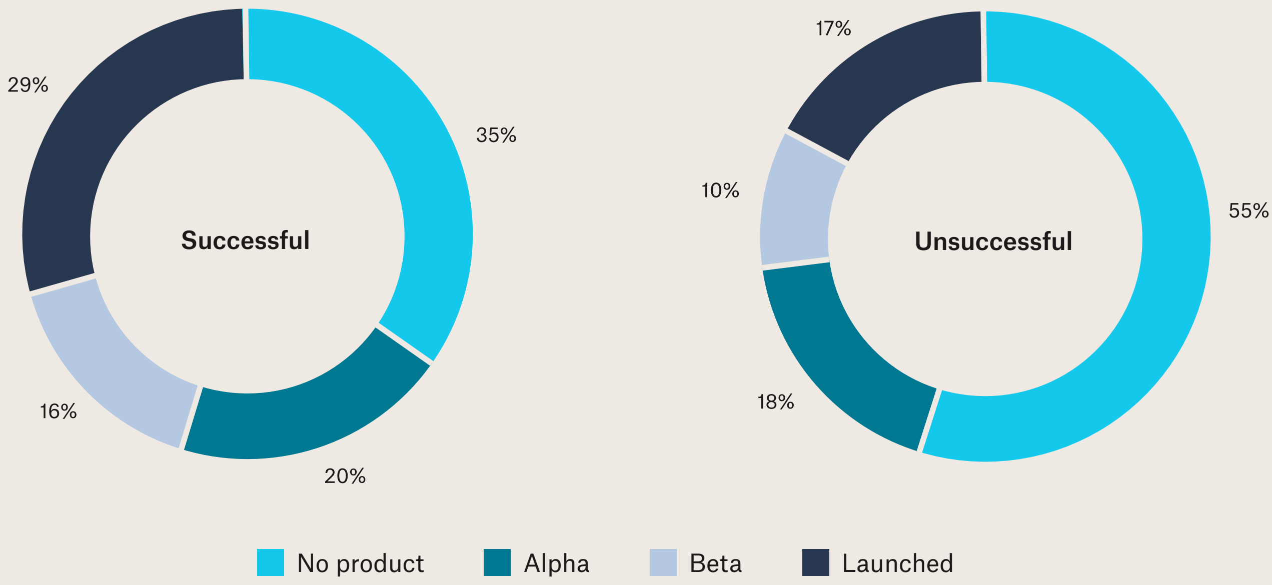
Pre-seed founders should consider including this section in their pitch decks, even if they understandably don't have a long track record of fiscal discipline to show at such an early stage. Rather than a track record, pre-seed founders can show how they're responsibly using current funds and how they plan to invest in specific areas of the business that are poised to benefit in the long term. At a time when eventual profitability is at the forefront of investors' minds, founders' early commitment to financial transparency may stand them in good stead.

Tips for a pre-seed financials section

Concisely show:

- Responsible use of current capital
- Where funding will create long-term growth
- Robust assumptions about future cash flows to mitigate risks

Product readiness



Successful pre-seed companies in 2022-23 were more likely to have a fully-launched product, and unsuccessful companies were more likely not to have built a product yet. However, this split only tells part of the story: 35% of companies that successfully raised a pre-seed round did not have a product. Pre-seed founders can still raise without a product in today's climate, but in order to stand out to VCs, they will need to present robust market analyses and thorough monetization plans that clearly signal long-term potential.

Although deck-viewing times are decreasing, founder thoroughness can pay off when it comes to the business model, traction, and financials sections. If founders judiciously expand on their stories in these slides, investors will take time to follow their thinking. However, too much information in these sections can lead to extra critical scrutiny, which in 2023 is correlated with unsuccessful fundraising outcomes.

The takeaway

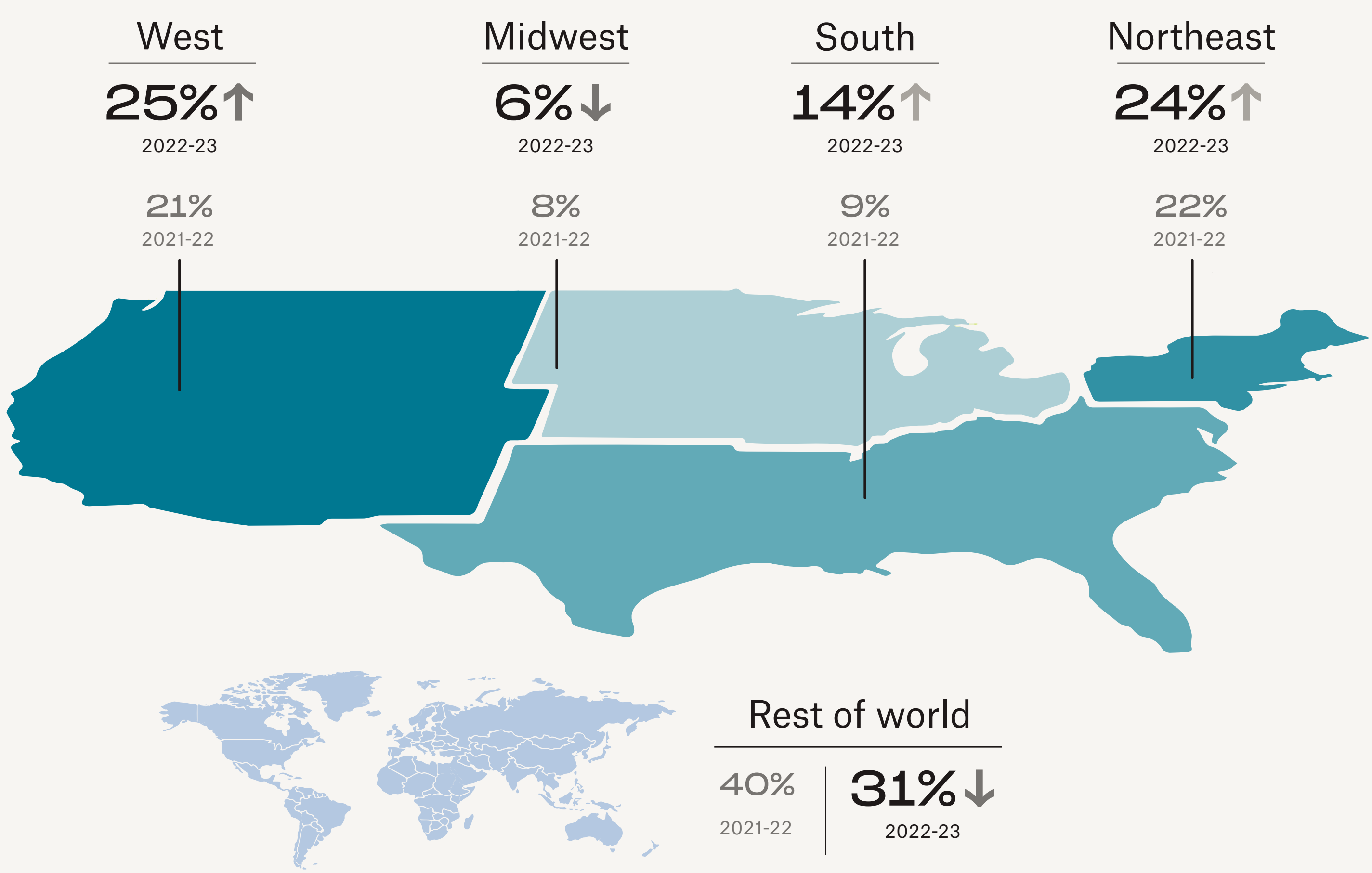
Pre-seed founders can take advantage of VCs' focus on future profitability by building a long-term perspective into the business model, traction, and financials sections that all speak to each other. In your storytelling, show how changes in traction metrics can solidify your business model over time. Likewise, in your financials section, demonstrate long-term growth plans that arise organically from your sustainable business model. Holistically showing a path to profitability will speak directly to investors' current concerns.

Geography and industry of pre-seed companies

The western and southern United States saw significant year-over-year increases of pre-seed companies raising funds. These changes may be due to tech workers starting new companies in the wake of industry downsizing or, in the case of the American south, significant population shifts to the southeast. We saw downward movement in the number of pre-seed companies from outside the United States, but these companies still make up about a third of our dataset.

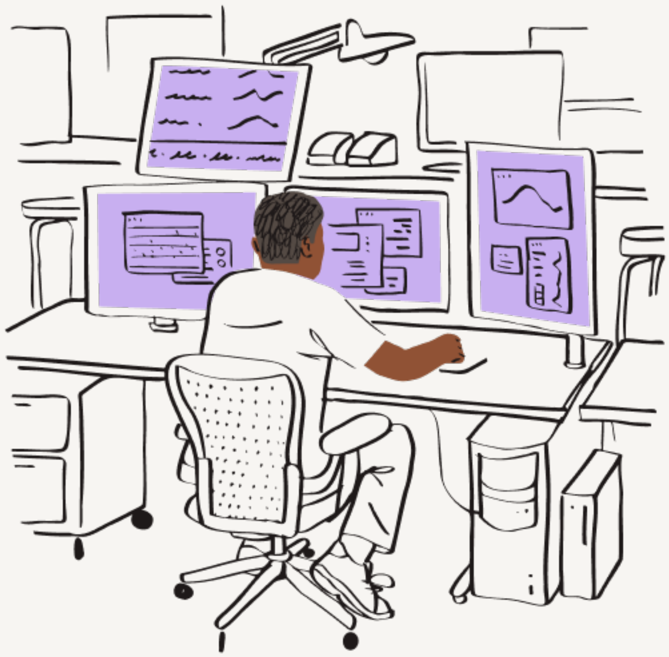
Where is pre-seed fundraising taking place?

Percentage of startups by region



The pre-seed AI boom

Although software companies of all fields were the most successful pre-seed startups in our dataset, AI companies featured most prominently from a year-over-year perspective. There were 60% more pre-seed companies working in AI in 2022-23 compared to 2021-22, by far the biggest year-over-year jump in terms of industries represented.



The takeaway

Just because "rest of world" companies made up less of this year's dataset doesn't mean pre-seed fundraising is any less global. Companies from all over the world have easier access to VCs at home and abroad, and they should be tailoring their storytelling to both audiences.

Domestically, the shift in companies from the southern United States indicates that fundraising is possible in new hotspots as well as traditional strongholds like the west coast. This data shows that geographic barriers to pre-seed capital are increasingly less burdensome than they once may have been.

The founding team makeup

Even in a tight fundraising climate, pre-seed teams of all sizes can raise funding, although larger teams in 2022-23 faced more hurdles. Solo founders and teams of two raised the most funding with the greatest efficiency (dollars raised per meeting) but teams of four or more founders raised smaller rounds on average with appreciably less efficiency. Adding the right co-founders to your team may bring a breadth of expertise to your company and make an investment less risky for VCs.

Pre-seed founders in their 20s and 30s raised the most overall (and with the greatest efficiency), with a significant dropoff happening for older founding teams. Teams of all ages and sizes raised less on average in 2022-23 than in 2021-22, reflecting ongoing investor hesitancy and a trend toward lower valuations for startups.

At a glance: funding by number of founders

Avg. amount raised	$720K	$700K	$630K	$545K
Avg. investor meetings	54	50	49	55

At a glance: funding by age

	20s	30s	40s	50+
Avg. amount raised	$780K	$760K	$630K	$590K
Avg. investor meetings	56	54	49	48

The takeaway

Teams of all ages and sizes can raise pre-seed funding, though larger and older teams may face additional barriers in today's climate.

Fundraising is challenging in any macro environment, and solo founders may want to add co-founders to take some of the burden off themselves. Doing so may also bring new skills and ideas to the table that can in turn entice VCs. Be aware that diminishing returns may kick in: the largest teams in our dataset raised fewer dollars in 2022-23.

Gender and racial diversity at the pre-seed stage

Teams of all genders raised less in 2022-23 than in 2021-22. Fundraising outcomes across gender demographics were also less equitable: all-female teams raised 10% less than all-male teams in 2022-23, whereas they raised 4% more in 2021-22. All-female teams also raised with less efficiency, earning $11,600 per meeting compared to $15,000 per meeting for all-male teams. Mixed-gender teams raised the most, although not quite as efficiently as all-male teams, signaling that gender diversity may inspire more confidence among VCs.

Gender and fundraising efficiency



	All female	All male	Mixed gender
Avg. amount raised	$650K	$720K	$750K
Avg. investor meetings	56	48	52

Gender and deck scrutiny

Compared to all-male teams, for all-female teams investors spent...

45%
more time on the team section

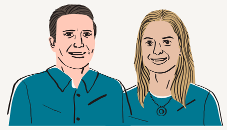
60%
more time on the market size section

80%
more time on the business model section

Deck scrutiny for all-female teams saw investors spend more time on the team, market size, and business model sections compared to all-male teams. This scrutiny broadly tracks with trends found across all early-stage fundraising in our 2023 Funding Divide Report. The business model section had the longest viewing time for all-female teams, but extra scrutiny on this section correlates with unsuccessful outcomes in our dataset, suggesting that some of the additional time spent may have been critical.

Amount raised and investor meetings by race/gender





	All male/no minority	All female/no minority	Mixed/no minority
Avg. amount raised	$660K	$660K	$730K
Avg. investor meetings	42	45	56



	All male/minority	All female/minority	Mixed/minority
Avg. amount raised	$700K	$450K	$800K
Avg. investor meetings	56	52	60

Teams with minority members raised about 11% less than less diverse teams in 2022-23. All-female teams with minority members raised the least out of any demographic, matching another key finding in our 2023 Funding Divide report across all early-stage funding rounds.

As with gender, deck scrutiny also differed across racial demographics. Investors spent about 40% more time on diverse teams' traction sections than they did for all-white teams. The traction section has continued to increase in importance as the fundraising market has grown tighter, and this discrepancy is in line with our broader Funding Divide findings as well.

The takeaway

In 2021-22, we saw more equitable fundraising outcomes for diverse pre-seed teams. These gains for historically underrepresented teams have not held in a tighter fundraising climate, however. Further, racially diverse all-female teams continue to raise much less than their peers. This data suggests that some funding disparities that had begun to be reversed in more optimistic times are once again reasserting themselves.

Face-to-face fundraising

The pitching process grew more difficult in 2023 compared to 2022. Although the overall average fundraising time is only slightly longer year-over-year, fewer raises are completed in less than 6 weeks, founders are contacting more investors, and they are securing fewer meetings. As deck review times have shortened, founders have trimmed their pitch decks accordingly: the average deck length dropped by over 15% in 2023, from 19 pages to 16. Many successful founders had shorter than average decks: 40% of successful pre-seed teams had decks shorter than average, whereas 65% of unsuccessful teams had decks longer than average.

Communicating with investors

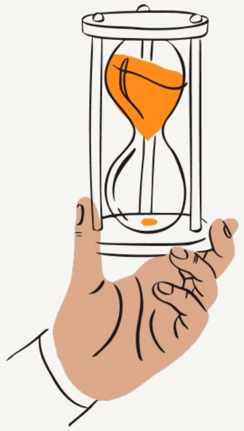
	Avg. deck length (slides)	Avg. investors contacted	Avg. meetings set	Avg. read time
2022	19	60	52	2:42
2023	16	71	46	2:12

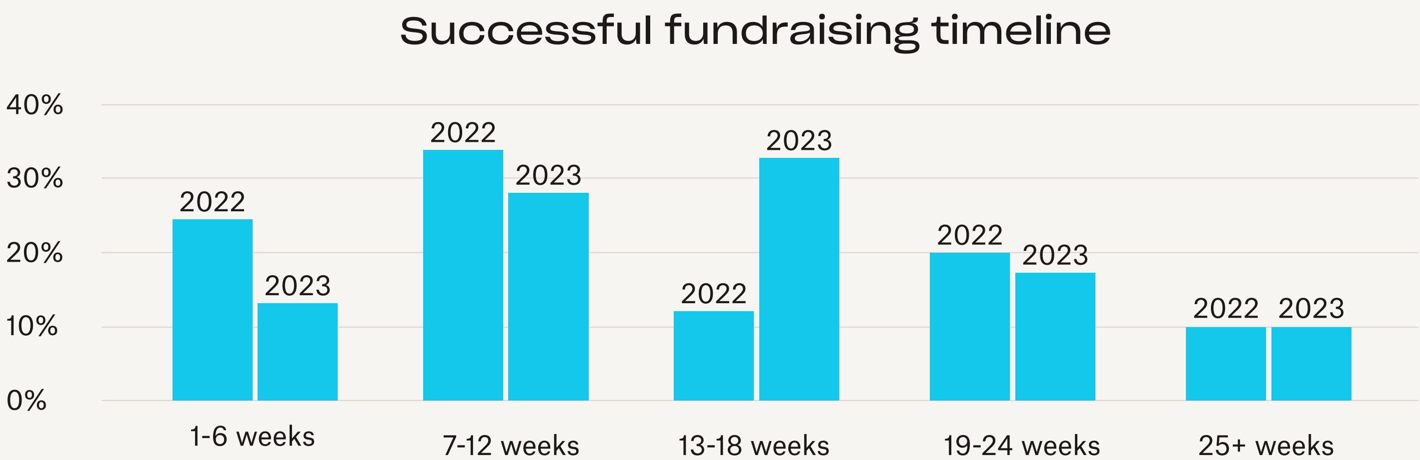
From first meeting to money in the bank

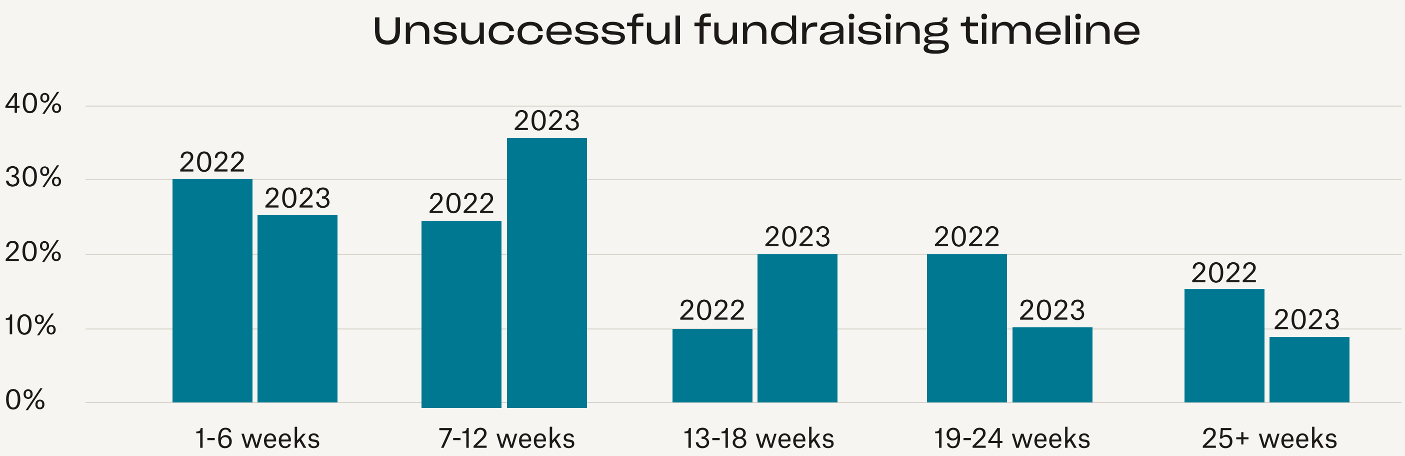
	Avg. fundraising time (weeks)	% of successful companies completed their raise in 6 weeks or less
2022	15	25%
2023	16	13%

How long does a pre-seed round take?

Successful pre-seed rounds are taking longer in 2023 compared to 2022. Nearly a third of successful pre-seed raises took 13-18 weeks in 2023, up from just 12% the year before. However, fewer companies that don't manage to raise a round are attempting to "tough out" a raise after the 4-5 month mark: only 19% of companies that were unsuccessful kept their fundraising process going after 5 months.







The takeaway

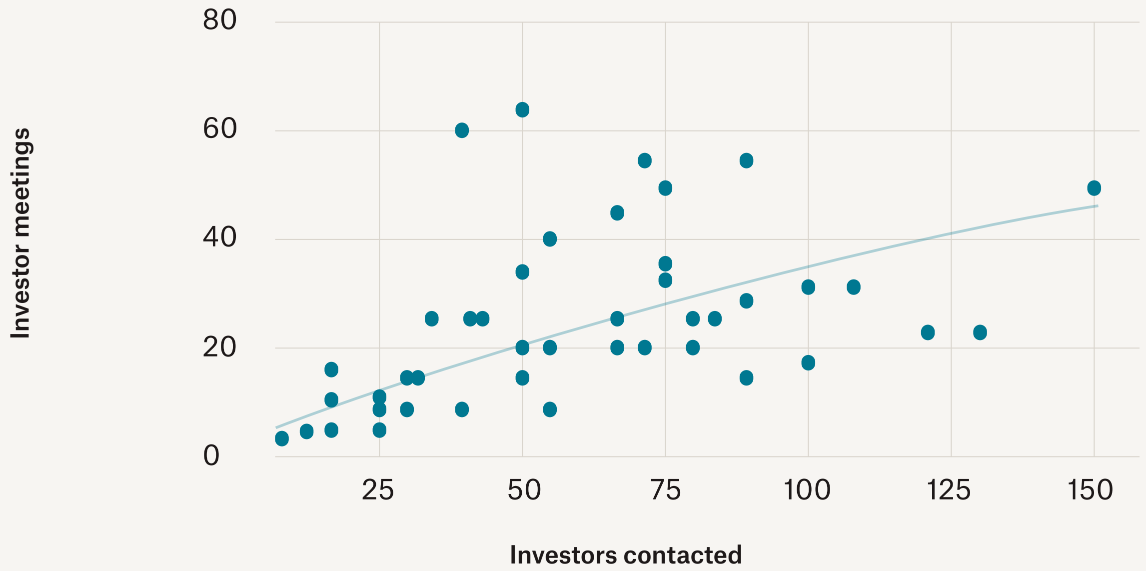
Fundraising times have slowed in 2023, and all pre-seed founders can learn a lesson from the unsuccessful companies in our dataset. Very few of these startups kept their fundraise going after 19 weeks, and founders should be prepared to stop raising rather than continuing if doing so would take meaningful time away from creating a product or a more compelling business story.

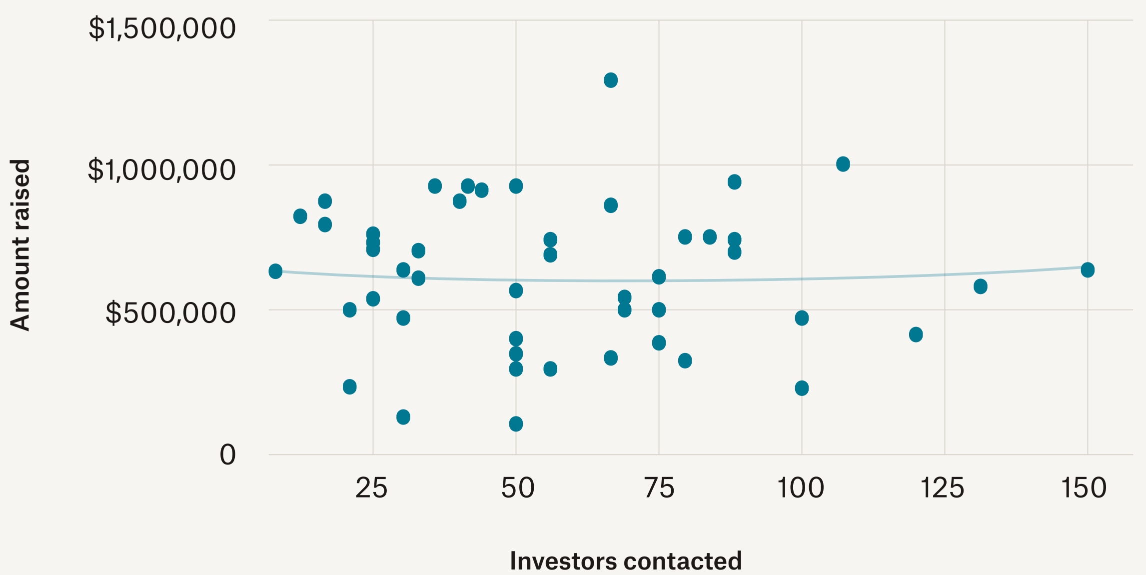
In a challenging environment, receiving early feedback can be crucial: if you're met with significant friction early on, it may be preferable to shore up aspects of the business that give investors pause rather than dedicating weeks and months to a raise that may not work out. Sync with trusted advisors before embarking on a pre-seed raise and be prepared to change your plans in response to critical feedback.

How many investors should you contact?

Our data shows a weak correlation between the amount of investors contacted and the number of meetings secured. Many companies in our dataset received healthy numbers of meetings by contacting around 50 or fewer investors, suggesting that pitching smarter, not harder, is advice that remains valuable in a tight fundraising context.

An even weaker correlation exists between the number of investors contacted and the amount of pre-seed funding raised. Many pre-seed companies in our dataset successfully raised their round by contacting about 50 or 60 investors, and only a few did so by reaching out to 100 investors or more.





The takeaway

Regardless of the macro environment, plan your raise ahead of time by setting yourself a reasonable amount of time (a couple months should suffice) and a reasonable number of investors to contact. Aim to stick to the limits you've set yourself.

Additionally, make sure you're contacting the right investors, whether specialist VCs in your field or generalists who write checks in the size you need. Creating a list of appropriate investors before starting a raise will help the process go as smoothly as possible.

Conclusion: risk mitigation goes beyond the pitch deck

The challenging macro environment has created new hurdles for pre-seed founders. With increased competition for less VC attention, pre-seed rounds are taking longer, requiring more investor outreach, and yielding smaller checks on average.

Our 2022-23 data speaks to these challenges by showing founders how pitch deck scrutiny and the outreach process have changed in a tighter private fundraising climate.

By the same token, pre-seed founders need to follow VCs' leads by looking beyond the short term and focusing on de-risking their businesses for the long run. With investors minimizing their own risks by seeking out signs of long-term profitability, pre-seed companies should think meaningfully about how their current decisions will generate future stability. Founders should emphasize this risk mitigation in their pitch deck narratives, but on a deeper level this concern should inform foundational business decisions made in the early days of a company's lifecycle. From this perspective, today's intensified focus on risk and long-term profitability offers a chance for pre-seed founders to build stability into their startups from the very beginning.

DocSend's fundraising data allows us to generate insights like these for startup founders at various stages and to observe how fundraising trends shift over time. Pre-seed founders should foreground sustainable business models and highlight meaningful long-term thinking to meet the risk-averse fundraising moment. Staying connected to the latest fundraising data will help founders understand changing investor expectations and develop actionable long-term stragtegies.

Methodology

DocSend surveyed 206 startups that identified themselves as pre-seed stage companies. We also analyzed pitch decks from these companies to gain additional data and insights. All of our data comes from companies that opted into the process and was gathered throughout 2022 and the first half of 2023.