2022 Startup Predictions: The Trends, Sectors, And Tech Worth Watching

Kjartan Rist Forbes

Since the onset of Covid-19 two long years ago, venture capital-backed technology companies have exceeded all expectations and played a significant role in driving the economic recovery.

Indeed, the VC ecosystem increasingly looks like the last remaining source of dynamism in a global economy largely bereft of new ideas, and 2021 saw record levels of investment into the European venture community.

Given our growing reliance on the innovation, efficiency and problem-solving capabilities delivered by VC-backed technology, we should expect the pace of investment to step up once again in the year ahead. Here are a few of the trends and technologies likely to drive these investment decisions.

Net Zero through technology

According to John Lervik, Founder of industrial dataops provider Cognite, industrial technology's role in mitigating climate change is still underestimated. Deploying digital software tools is no longer optional for industrial businesses. This type of tech adoption is now essential both to compete and to comply with overriding sustainability targets. For asset-intensive industries, we are already well on the way towards a transformation in how energy is produced, stored, distributed and consumed.

More broadly, advanced analytics, AI, business intelligence and cloud tools will all play a vital role in combating environmental concerns in 2022, contributing to sustainable industry practices through increased transparency, production efficiency and improved energy management. Data is becoming the key environmental decision-maker as more companies embrace automation and digitization.

Crypto regulation takes shape

Crypto skepticism is still engrained amongst some investors. However, vastly increased adoption – including sovereign countries, corporates, and larger institutional investors – has forced the hand of regulators, banks, and international infrastructure providers.

In 2021 we saw increased deployment through crypto assets embedded into products and services, offering greater accessibility for consumers. Alongside this, more service providers are piggybacking on the growth of the crypto economy to create compliance, custody and lending solutions, new exchanges and intermediaries.

Adoption in 2022 will be further enhanced by Government-driven structured regulatory processes and increased lobbying by emerging key players in the crypto economy such as Coinbase, FTX, Digital Currency Group, and Galaxy Digital, amongst others. Ultimately, regulation is much needed by all parties to defeat the sceptics and send crypto mainstream.

Therapy and psychedelics support

With the world currently facing an extreme shortage of health clinicians, many of whom themselves are struggling with burnout, digital platforms will continue to take centre stage, going beyond the current apps linking patients and therapists to deliver more self-service solutions.

Just as video consultation and telemedicine have become key features in the healthcare supply mix, the maturity of – and growing advocacy for – psychedelics will offer patients additional treatment options in 2022. Technology will play a substantial role in the deployment and delivery of psychedelic-focused therapy. While existing technologies are still very nascent, as venture investment increases, they will widen access to treatment for millions of people who are currently being neglected.

Meta hype

Continued technology development, working from home, decentralization, and the increased focus on the virtual world has propelled the topic of ‘meta’ to most innovation agendas. A self-indulgent tech behemoth has even taken ownership of the name!

However, what’s becoming clear is that meta development cycles are much longer than originally anticipated, further hardware innovation is still needed, and, consequently, application areas are still limited. Big Tech will try to own the metaverse, but it will face a significant challenge due to changing power structures, IP/content rights and the acceleration of the decentralization movement, especially the greater use of the blockchain.

Globalization in reverse?

As consumers and businesses, we have all faced disruptions and shortages due to supply chain frailties. In 2021, a wave of extreme weather, combined with shortages of workers and cargo space, created a perfect storm for the global supply chain, adding further pressure onto organizations to rethink and remodel the way they manufacture, sell and ship their produce.

The supply chain is on the verge of a revolution, with businesses placing less emphasis on cutting costs and more on building the capacity and resilience to weather disruption. This will likely mean companies bringing their operations closer to home. In a Bank of America study, 75% of companies said they were reshoring operations to their home bases or neighboring countries.

We're also going to see more companies investing in 'smart factories,' with an emphasis on automation, cloud platforms and other enabling technologies to deliver products in time, at the right volume and when needed.

The YOLO economy

The pandemic has forced many people to take stock of their lives, review their frenetic lifestyles and ask big questions such as "Why I am doing this?" or "What's it all for?"

Last year, this trend was one of the driving factors behind The Great Resignation. In 2022, we can expect to see more holistic changes in how people live and the emergence of the YOLO (You Only Live Once) economy.

The YOLO ethic centres individuals in their own entrepreneurial pursuit of life improvement – whether that's greater job satisfaction, better work/life balance, or simply the chance to do more of the things that interest them.

It's good news for the startup community, where this attitude and belief system is already commonplace. But even startups need to keep their finger on the pulse of how employee attitudes may be changing along YOLO lines. For example, Atom Bank has introduced a 4-day work week without any pay cut. Microsoft is trialing the same approach. Employee demands for locational flexibility, creative working-week structures, and more equitable and accessible recruitment methods are all going to grow in 2022.

The rise of the Family Office

As more tech companies stay private for longer, Family Office venture investment is growing at a monumental pace. Almost 70% of all family offices have been set up since 2000, with half emerging post-financial crisis in 2008. According to Rob Diamon from Diamond Wealth, there is $10 trillion of wealth amongst Family Offices, a figure predicted to grow to $65 trillion over the next 15 years.

However, many Family Offices are still working out how to play the VC game – for example, whether/when to go direct, how to staff their operations, how to best access chosen partner funds. Due to the sheer size of the wealth and their focus on private markets, Family Offices could further disrupt the private investment world in 2022. The main question is how?

The invasion of Europe and an early stage investment renaissance

When a home market becomes saturated, increasingly competitive, or the talent well runs dry, it is customary to conquer new territories in search of talent and investment opportunities.

Hence, it's no surprise to see that US investors are now participants in more than one-quarter of all investment rounds in Europe, with more than 600 US VCs investing in 2021, according to Atomico. At the same time, the US participation in European $100m+ rounds went up by 200%, and 95% of all transactions of $250m+ had US/Asian participation.

Ownership of Europe's fast-growth businesses is fast being handed over to non-European investors. While this gives entrepreneurs greater choice and volume of investment, it's skewing the investment landscape towards later stage investment cases and more mature companies. European investors are suffering from a lack of institutional backing to compete, and they have a challenge on their hands in 2022 to compete against the deep pocket and machine-like investment procedures of Tiger, Coatue, Softbank, Insight, and others.

I believe that we'll start to see more European investors refocusing efforts on early-stage investing. After all, the fundamentals in Europe are strong: There's a considerable inflow of talent into the entrepreneurial sector, a recycling of capital by serial founders and a continuous flow of exits. The future unicorn pipeline needs addressing in 2022, and European investors need to get this right.

Macro volatility will remain

The world continues to be beset with conflicts and unstable geopolitical conditions – from armed conflicts between nations to trade disputes to energy security and environmental concerns.

These factors have an integral effect on economic conditions such as inflation, and we are now seeing inflationary movement leading to increased interest rates. In the next 12 months, we're likely to see higher interest rates increasing the cost of capital and causing a cascading negative effect on IPOs, later stage dealmaking and M&A activity. Whilst we saw a record number of IPOs in 2021 (partly fueled by SPACs), two-thirds of these IPOs dropped in value post-listing, and I expect the trend to continue into 2022. If so, this could also help contribute to an early stage investment renaissance.

The continued role of venture investment

When trying to predict what will happen going forwards, we can draw on current societal trends, known technology challenges, or examples of existing inefficiencies or bottlenecks – anything that suggests a clear opportunity to innovate through the smart deployment of technology.

What's harder to predict, however, is the extent to which fear or misunderstanding will hinder the progress of innovation and improvement. Resistance to change, whether it's driven by ignorance or by a political agenda, can lead to slow adoption cycles or a 'do nothing' mentality.

This is why I believe the VC model – which emphasizes rapid, transformational growth and scalability – remains uniquely placed to tackle the major societal issues facing us today. There will always be resistance, but given the global scale of these challenges, the pace of innovation must not slow. In short, we need the dynamism of venture capital more than ever in 2022.