

A Glimpse into the Future for European Digital Natives



Digital-native businesses' (DNBs) deal-making, valuations, and exit activities were all down in 2023 in the European venture market, according to [Atomico's The State of European Tech 2023](#). A market return to form that, however, can be considered a worldwide phenomenon.

The key fundamentals that led to a downturn in the funding environment in the last two years are still in place. Limited partners are still cautious about providing more money to the venture capital (VC) ecosystem, due to persisting macroeconomic and geopolitical uncertainties. With difficulties continuing in the funding environment, the number of exits is expected to remain limited in the short term, in favor of M&A and consolidation.

With all this as a backdrop, what will 2024 look like for European DNBs?

From AI to Sustainability Technologies: Where Is the Money?

European venture capitals hold a consistent amount of dry powder due to this lack of activity, which could be invested in selected deals this year. A 2024 rebound is expected in the event of a cut in interest rates, which could lower risk perception from limited partners. If only 10 new unicorns (privately owned companies with valuation above \$1 billion) were created in Europe in 2023, down from 46 in 2022, with an upturn in deal-making activities we expect a larger number of DNBs to join the unicorn cohort.

European Artificial intelligence DNBs are expected to be at the forefront of investors' interest again in 2024. As focus on deals from VCs and corporate VCs in 2023 was on large language models (LLMs), deals will most probably shift toward AI vertical applications. With regulations such as the EU AI Act coming into effect, investment will also shift toward start-ups and scale-ups focused on AI security and privacy.

Sustainability technology DNBs, from carbontech to climatetech, dominated capital flows in 2023, and the segment is expected to attract more capital in 2024 too, with climate change a key topic on European (and worldwide) leaders' agendas, as demonstrated by the outcomes of COP23. Furthermore, tech start-ups growth in Europe is also sustained by national and EU stimulus funds, such as the [European Innovation Council \(EIC\) work programme 2024](#), which allocates €1.2 billion for strategic technologies and scaling up companies in deep tech innovations, from spacetech to quantum technologies.

How Will External Conditions Shape European DNBs' Technology Investments?

Uncertain market conditions push digital natives to reprioritize their tech spending toward optimizing processes and increasing profitability, but tech expenditure will not be cut, as it is essential to sustain their digital-based business models. More specifically, security technologies and cloud platforms are pivotal investments to develop secure and scalable digital products and services, whereas increased focus on AI and automation technologies is set to make larger DNBs leaner and more cost effective. Data infrastructure, integration, and quality investments would be still pivotal to boost wider AI adoption, targeting customer experience initiatives as well, with the aim to retain and enlarge the existing customer base.

IDC's Top 10 Digital-Native Business Trends in 2024

- **Trend 1:** Growth of DNBs will outpace the growth of traditional enterprises.
- **Trend 2:** GenAI is at the top, bottom, and center of DNB businesses.
- **Trend 3:** Data is key for growth and innovation.
- **Trend 4:** Mature DNBs' tech investments prioritize operational continuance and efficiency.
- **Trend 5:** CloudOps and FinOps are DNBs' top investments.
- **Trend 6:** CX is key — customer-connected, customer-driven, and customer-initiated.
- **Trend 7:** DNBs continue to drive ESG goals.
- **Trend 8:** Digital ecosystems are AI-driven with a focus on innovation, speed, and agility.
- **Trend 9:** DNBs lead the development of new roles and business functions.
- **Trend 10:** Intelligent automation will compensate for skill shortages.



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