DEEP Ecosystems

SCALING STARTUPS GLOBALLY

A Strategy White Paper for the Development of a Better Startup Ecosystem
– DEEP ECOSYSTEM LEADERSHIP COMMUNITY

In partnership with

Ajuntament de Barcelona

MUST
The Munich Innovation Ecosystem

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Trucksters

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SCALING STARTUPS GLOBALLY

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On the Authors

DEEP Ecosystems is a world-wide community of tech ecosystem builders who collaborate to build more transnational, inclusive, entrepreneur-driven and impactful innovation systems.

The main activities of DEEP are the Startup Heatmap Europe, an unparalleled database on ecosystem development metrics, the DEEP Ecosystem Conference, which brings together a community of more than 400 professional ecosystem leaders twice a year. Finally, DEEP organizes the DEEP Startup Ecosystem Accelerator which directly supports the growth of local ecosystems. DEEP regularly organizes peer-knowledge exchanges and educational formats for ecosystem builders ranging from Ecosystem Hacks, Data Trainings and Full-Scale Educational Programs.

On this Publication

The DEEP Ecosystems Conference on 15th April 2021 brought together 175 practitioners and experts from the startup scenes of more than 45 countries to have data-driven discussions on the most pressing challenges their ecosystems face.

The event evolved around 5 deep dive topics ranging from AgriTech and sustainable food production to diversity and female entrepreneurship. Each of the topics was prepared in-depth by a research team and the findings shared with all participants before the debate. Combining the knowledge and insights of the whole DEEP Ecosystem Leader community Strategic White Papers are formulated that aim to inspire everyone in the startup scene and open up a perspective of how we can build a more transnational, inclusive, entrepreneur-driven and impactful ecosystem.

The DEEP Dive on Internationalization was co-hosted by the Barcelona City Council with further partners like Tel Aviv Global and MUST – The Munich Innovation Ecosystem. Further expert contributions came from Trucksters – a successful logistics startup from Spain as well as from Barcelona Tech City.

ALL GROWTH IS INTERNATIONAL

High-growth startups and internationalization go hand-in-hand

Due to their immense growth capability, startups and scaleups are turning into a key component of local economies. According to the OECD growth rate for startups range around 20% per year during the first 3 years.

Gabor Balogh,
Co-Founder and Head of Growth
Trucksters

"Now is the best time to build an international startup. There's a lot of money accumulated, and investors are eager to spend it."

In a study on the US job market it was found that only 4% of all companies are startups, but they are responsible for 70% of all jobs (Magnus Henrekson & Dan Johansson (2010). The effect is even larger for high-tech jobs as every high-tech job is estimated to create 5 additional jobs (Moretti 2013).

Helping to internationalize business is a big challenge for all economies. To reduce risks, strategies need to be carefully analyzed and planned according to other experiences and data. Since these kinds of companies have an exponential growth potential, internationalization is not an option, but

a need. Also, because of the potential impact that they can cause in local economies,

internationalization of startup companies is a task that must be boosted by both the public and private sector.

85% of startups internationalize in their first year

As we can see in the chart on the next page, more than 50% of startups inter-nationalize within the first year of incorporation, while 85% of the companies from the EU are scaling into other markets during the first 3 years. This also shows an

opportunity to support an earlier expansion.

The data is based on the Startup Heatmap Survey 2020 among >500 founders, which also shows the geographical preferences among EU founders when it comes to expansion.

The US is leading with 30% of all founders considering it as the most important target market, before the UK. Only 10% consider Asia as their most important market.

With 37% Europe is the most important target market for most founders

However, if we take the cumulated value of all EU countries, we see the bloc taking the lead with 36.89% of all founders choosing one of the 27 countries as their most important target market.

This highlights the particular problematic situation of Europe's market fragmentation.

To understand expansion patterns of successful European startups, we analyzed 326 office locations of 49 European active unicorns (pre-IPO). Of these roughly 64% were established abroad and 49% outside of Europe, showing the importance of global expansion for unicorn growth. For European unicorns, the leading destination country was the US with 21% of all offices followed, maybe surprisingly, by Australia, Singapore and Japan as well as Nigeria with each 8-12 offices.
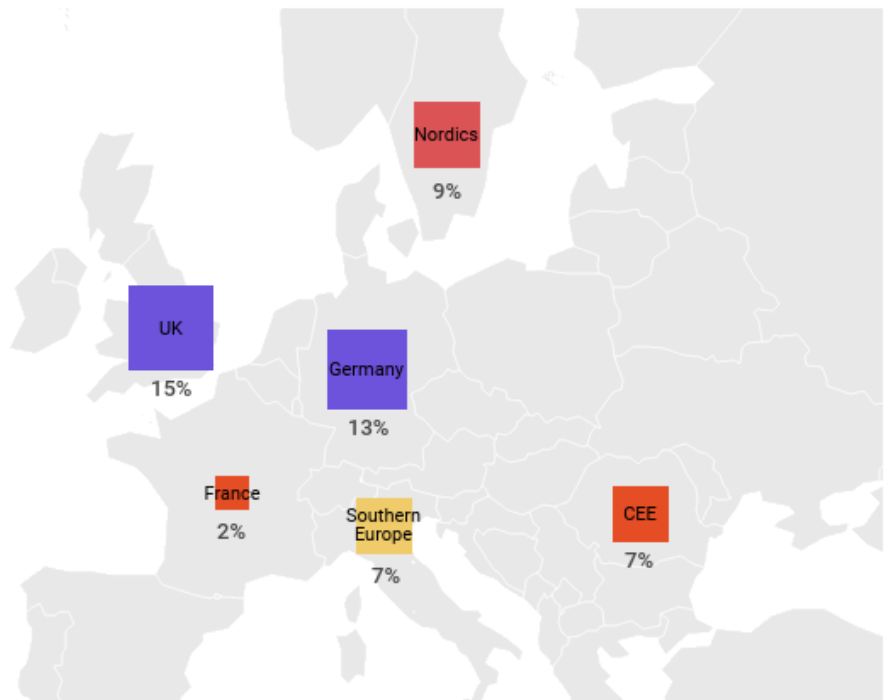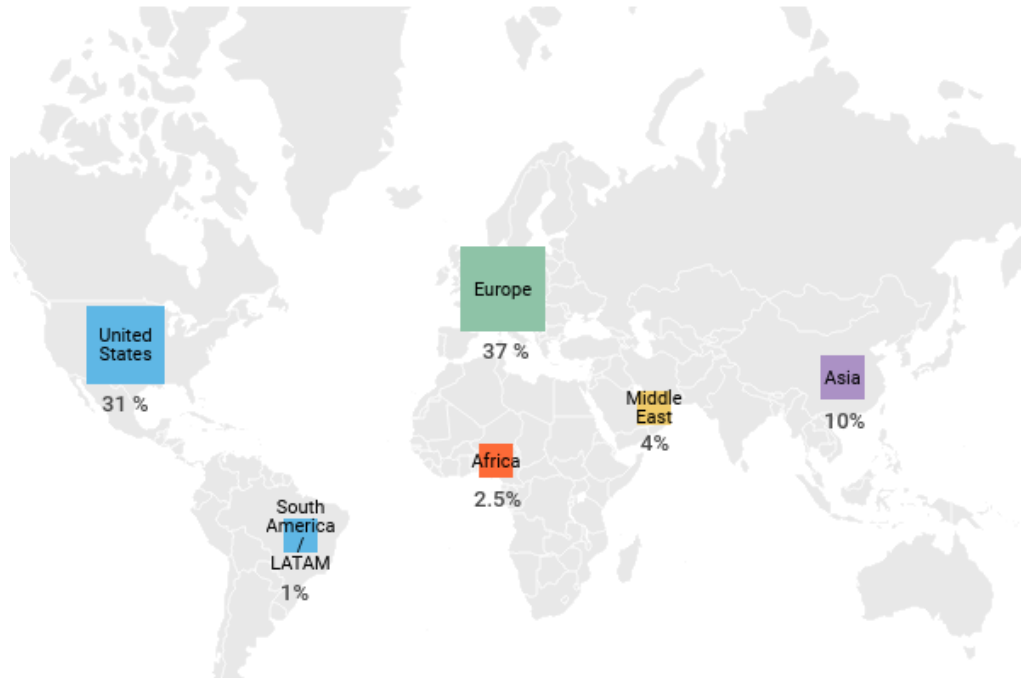
In Europe most international unicorn offices were setup in Germany (30), followed by the UK (13) and France (10).

>5 years
7%

<5 years
7%

<1 year
51%

<3 years
35%
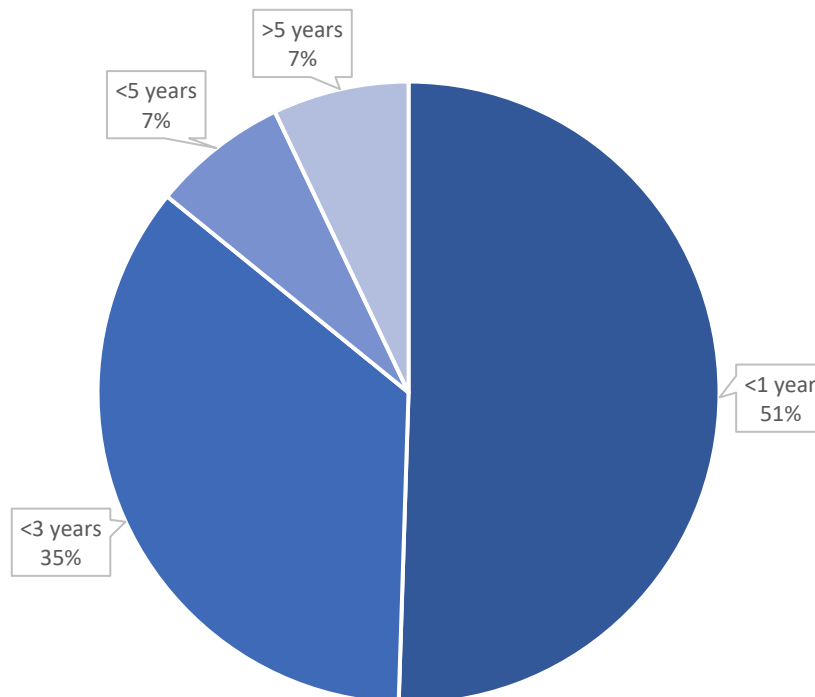
How long does it take European founders to go international after incorporation?

Source: Startup Heatmap Europe 2021

WHERE DO EUROPEAN FOUNDERS SEE THEIR MOST IMPORTANT TARGET MARKETS?

Europe
37 %

United States
31 %

Middle East
4%

Asia
10%

Africa
2.5%

South America / LATAM
1%

Nordics
9%

UK
15%

Germany
13%

France
2%

Southern Europe
7%

CEE
7%

BRIDGES TO BARCELONA

In this Interview, Xavier Mayo, Economic Advisor to the Barcelona City Council, argues for more collaboration between cities to create bridges for entrepreneurs to grow transnationally.

Xavier, Barcelona has it all, world-famous unicorns like Glovo, a vibrant community, international attractiveness… do you even need to support startups?

Barcelona´s ecosystem is doing well – we have been the 3rd most attractive startup hub four years in a row, we are among the top 10 for investments and – maybe less-known – we are the 7th largest hub for software developers in Europe. But there's still room for improvement. I am actually more interested in what we are doing wrong, than what we are doing well. Especially from a perspective of the City Council, we must

concede that we are not the ones building unicorns, we are setting the framework conditions. And there we never can rest on past success.

Then let's turn to the challenges – what does Barcelona need to improve on?

Well, there is a lot. But concretely, we cannot be happy with the amount of female entrepreneurs and the challenges we still face towards access to finance for women-led startups. That is something where we can learn from other ecosystems, for example from Vienna, who are also part of the DEEP Ecosystems network. They do outstandingly well in this regard. This is also part of internationalization – learn

Startups in Barcelona managed to raise over 3.56 bn € between 2013 and 2020 (Dealroom). This achievement put Barcelona among the top 10 cities in the EU in these terms. Also, since 2016 the figures doubled, a clear sign that the ecosystem is growing to have more startups/scaleups landing there.

from other ecosystems, build relations and create bridges where entrepreneurs can cross borders.

Barcelona is an attractive hub, but Catalan and Spanish entrepreneurs might be tempted to stay within their cultural boundaries. Are startups in Barcelona born global?

Many of them are – our estimates show that a majority of founders even come from abroad to start in Barcelona. That creates a great vibe and also opens many doors for expansion. We also have the Mobile World Congress as the largest tech event of

its kind in Europe, where startups play an integral part and can meet corporations from all around the world. In the past we have enforced this by bringing some 20-30 startups to the MWC Shanghai and Los Angeles editions, too.

Finally, what is your wish for the future?

I strongly believe we need to cooperate more among ecosystems in Europe. Barcelona is open to this, we have a strong public support system, but also private initiatives like Barcelona Tech City that brings together the large tech companies as well as startups that reside in

the 22@ district for innovation, which is around Sant Marti. I invite every ecosystem builder in Europe and beyond to come to Barcelona and see how we can collaborate.

SCALING FROM MUNICH

Munich has seen massive startup growth over the past years. With MUC SUMMIT the city has now its own international partnering and facilitation player. Meet Katja Werner, Business Developer and Project Leader at MUC SUMMIT.

The MUC SUMMIT GmbH, initiated by Unternehmer-TUM GmbH, Strascheg Center for Entrepreneurship GmbH, and German Entrepreneurship GmbH, has established itself as Munich ecosystem's main partner and facilitator of high-level networking opportunities by hosting events and workshops.

To empower German start-ups to scale globally, the German Entrepreneurship GmbH runs the German Accelerator and takes high-potential companies on a fast-paced learning journey in the world's leading innovation hubs in the U.S. and Asia and provides mentoring from dedicated experts, access to a vast global network of business partners

and investors, as well as free office space in various locations.

"MUST – The Munich Innovation Ecosystem" is the driving force for the strategic development of Munich's innovation ecosystem, connecting and enabling the key stakeholders and elevating Munich's unique profile nationally and its dynamic and ever-evolving high-tech region by bringing together a strong network to foster the exchange between industry, science, government, start-ups, and ecosystem players for the entrepreneurial and innovation exchange in, from and for Munich. To elevate Munich's unique profile internationally, MUST cooperates with the three leading local universities – the Hochschule München –

University of Applied Sciences, Ludwig-Maximilians-Universität and Technical University of Munich – and their entrepreneurship centres to act as the Ecosystem Integrator for the Munich Global Impact Sprint (MGIS). Thereby, MUST fosters the relationship between international tech start-ups and established companies to co-create scalable innovation striving towards the Sustainable Development Goals to strengthen the position of Munich as a leading entrepreneurial and innovation hub and to attract international talents, technology-based projects, and start-ups.

Sebastian Diaz Mesa
Co-Founder DEEP Ecosystems, former
MD Startup Chile

"Culture is one of the decisive factors in a successful expansion campaign from my experience."

Various Strategies for Internationalization

There is no blueprint for internationalization and a range of tools must be explored by startup CEOs to find the right match. Based on the schema presented by Switzerland Global Enterprise below, we have discussed various options at hand for foreign market expansion. The two axes describe a crucial investment decision startups need to answer: How do I balance invest-ments abroad and at home to achieve the best possible result?

Clearly, a local presence localizing products and maintaining direct customer contact is a great benefit, but it is also costly. May I also achieve the same results in terms of sales with an upgrade of existing local resources or with only a partial international presence? The schema lists various models ranging from e-commerce platforms, that might not need any local presence besides marketing localization to a fully-fledged subsidiary company with certain leeway and freedom to operate according to market needs.

To understand situations in which one or the other model is a better fit, we discuss three case studies from real startups from Europe who managed to internationalize successfully.

Source: Switzerland Global Enterprise
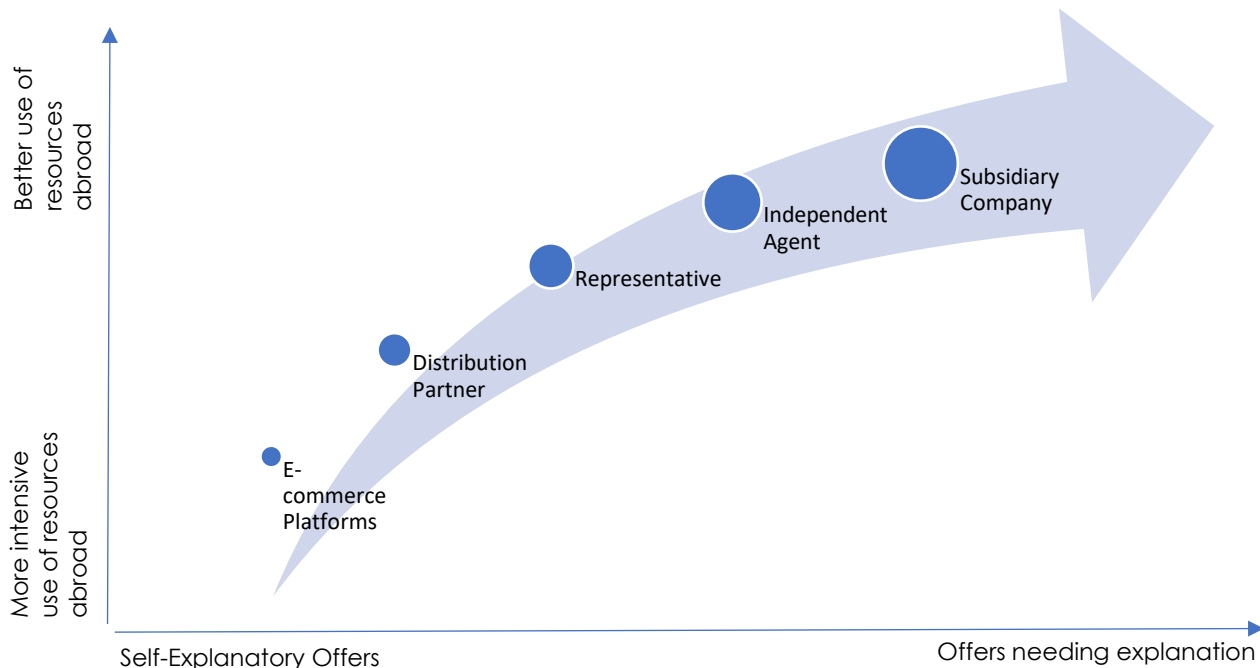
Case Study 1: Wargaming, Belarus

- Game hit "World of Tanks", in the Russian-speaking markets
- Localized its product for the markets of China, Europe, and America
- Scaling up to these markets opened up a new target audience for Wargaming and generated more than $ 200,000,000 in revenue per year
- The mobile market is horizontal and has almost no boundaries
- It was possible to enter international markets without even leaving the country
- The main office of the company still remains in Minsk.
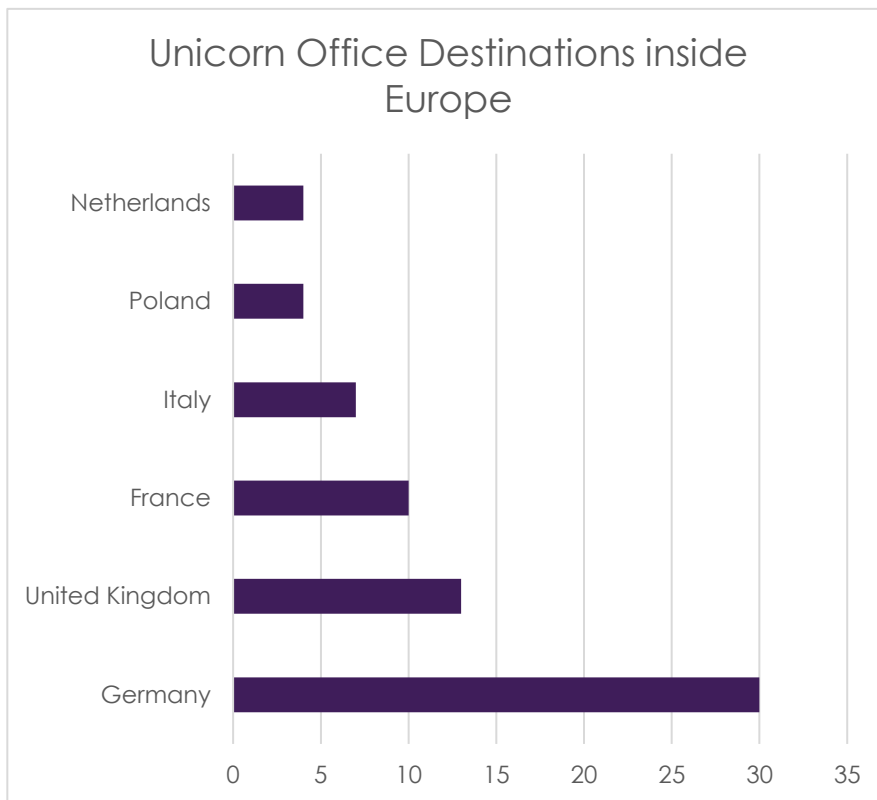
Case Study 2: Vinted, Lithuania

- Online marketplace and app for secondhand clothing
- Sequential launches with different brands in Lithuania, the Baltics, Poland, Czech Republic, Netherlands, Germany
- After successful Series A round, expansion to UK
- In 2020 Vinted reached unicorn status after an investment of German media house Burda

Case Study 3: Trucksters, Spain

- B2B logistics solution to provide long distance delivery of cargo
- Trucksters understood that they need local presence to win over new customers and experimented with remote selling, partnering with a local distributor and finally hiring local representatives
- In the B2B sector a particular support came from local investors and their network as well as brand.

Unicorn Office Destinations inside Europe

Country	Value
Netherlands	4
Poland	4
Italy	7
France	10
United Kingdom	13
Germany	30

Source: Startup Heatmap Europe 2021

TEL AVIV GLOBAL

Michal Michaeli is International Economic Development Director at Tel Aviv Global & Tourism with the Mayor's Office in Tel Aviv-Yafo. Michal explains why startups in Israel are born global by necessity.

"Born global" – that is easier said than done. How do Israeli startups enter in foreign markets?

All Israeli startups start with a notion and with understanding that they need to go global. Israel is not a big market; startups have to go global.

Currently, we observe a strong trend of Israeli scale-ups into the foreign market with operational, sales and marketing teams in that location, while the management is kept in Israel. Some of the Israeli startups don't set their pilots in Tel Aviv anymore, but do it directly in their destination market. If the local market is not your target market – the recommendation would be not even to start there.

An example of a company that does not operate in Israel at all is Honeybook, an Israeli scale-up with over 180 employees operating in the United States and keeping its R&D and product functions in Tel Aviv.

In supporting internationalization, what is the right balance of government and markets?

I believe the public sector (local or general government) should support the industry in its blind spots and shouldn't try to replace the private sector. Luckily, we have an elaborated and successful ecosystem, but there is still a place for us to fill those blind spots and do what the private markets aren't doing, for the good of the ecosystem and the resilience of our city.

For us it is important to build a strong network of entrepreneurs, where one that succeeded could help other generations. I know that other ecosystems are struggling with this. We create a diverse network with corporates, organizations that bring people who manage the ecosystems, and successful entrepreneurs to share the knowledge that we have and also learn from them. We arrange events to showcase startups to the world.

In Tel Aviv Global, we have office hours for startups to share our experiences and suggest the relevant market for their product. Mostly we specialize in the smart cities area. Tel Aviv is interested in smart cities solutions, and it is much easier to connect startups with municipalities or relevant counterparts in this area. A startup that was part of our program, for example, is Zencity, a business that started in Tel Aviv, with an AI tool for local governments to better understand the needs of their residents.

What is your advice to ecosystems who struggle to internationalize?

The main challenge that startups are facing these days when they want to go global is understanding and having information on globalization, in particular, what're advantages and disadvantages, what kind of networks that they have to have, what tools are at their disposal and mapping this out is very crucial. It is important to municipalities and other organizations similar to us to be involved in what is happening in their ecosystem, especially to understand the strengths of the ecosystem to be able to portrait it to the world and build their brand. Our work is to strengthen the brand of the city, mobilize organizations, and transfer our knowledge to all counterparts.

On the other side, networking is very important for the city and any entrepreneur, especially if you want to scale globally. Before Covid-19, we used to have a lot of conferences gathering foreign and local entrepreneurs to exchange with challenges, to connect and enter the local market. To keep meeting with people is important and we still meet virtually. Networking starts with an email or a cup of coffee at the conference. Every meeting is a chance for networking and every connection is a chance to take yourself one step forward. Networking is very crucial for internationalization.

Another aspect is defining your strengths and your upsides, so you can find the best fitted markets for your company and understand your differentiation from your competition. This should be a strong part of your brand messages.

OUR RECOMMENDATIONS

Based on the data collected and the exchange of experts during the DEEP Ecosystem Conference in April 2021, the DEEP Ecosystem Leaders formulate the following recommendations for a strategy for internationalization support of European startups:

1) Take a City-Level Focus

Ecosystems function on a local level. The serendipity created by dense personal networks cannot be replicated on national scale. Therefore, we encourage internationalization support programs to focus primarily on accessing city-level networks.

2) Bi-lateral Partnerships

The digital single market is a monumental project that must be finalized by the European institutions and implemented by federal governments in all countries. However, practical support for internationalization can often be better organized via bi-lateral partnerships between cities and regions.

3) Cross-Border Learning

Seed the idea of international growth with entrepreneurs from the start. We need examples and role models of entrepreneurs who succeeded, but also of those who failed. A particular focus can be to invite foreign entrepreneurs who scaled to your region to share their insights with local startups.

4) Focus Cultural Diversity

More than legal barriers, the differences in mentality, beliefs, and societal structures might hinder international growth of startups in Europe. When supporting startups to internationalize, it is important to go beyond theory and ensure real-life exposure to the realities of international markets.

5) Transparency on Startup Support Organizations

We believe in complete openness and transparency about all opportunities and suggest to not only create a Europe-wide directory of support programs, but also make the sharing of such opportunities an integral part of our understanding of startup support.

6) Build-up of Mini-Accelerators

A bold suggestion from our group is to federate the access to local networks around incubators and accelerators by offering mini-acceleration or soft-landing programs across borders. Startups cannot participate in several programs in a row due to time and equity constraints – therefore a model is needed to allow accelerators to support startups from other countries that were accelerated by international peers before.

7) Dialogue on Policy Alignment

Finally, we see a lot of legal changes in various countries aimed to support the growth of local startups. While such competition for the best legal framework is positive, we also see a need for alignment and consolidation to reduce divergences that make it hard for startups to scale in Europe, e.g. differences in corporate taxation, employer equity, or visa regulations.