

EUROPEAN STARTUP MONITOR 2020/2021

WELCOME

In line with the European Commission initiative to improve the economic and regulatory framework for startups and scaleups, this document analyses the potential of startups as future drivers of economic growth and job creation within the European Union.

The European Startup Monitor 2019/2020 provided a well-founded database on the emergence, dynamics, and development of startups, and gave insights to help policy makers design strategies that foster the development of the startups.

The now available European Startup Monitor 2020/2021 analyses in greater depth informations on startup founding teams, financing sources, current challenges and the assessment of the ecosystem environment. In addition, a number of new questions regarding the COVID-19 impact and the EU funding and grants were added.

We hope that you will enjoy reading our document!

The ESN research team





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Key insights

1. Founding a startup is mostly a **cooperative endeavour**: Only 19% of the startups were founded by only a single founder
2. The startups in growth stage have **increased their external capital from EU** in 2020 by more than half
3. The expansion outside the EU **has dropped by 62%** this year
4. **Portugal** has gained popularity as **startup destination**
5. Founders continue to have a strong believe in the **European post-graduate education system**. However, they point out **the lack of entrepreneurial education** within universities



Definition of “Startup”

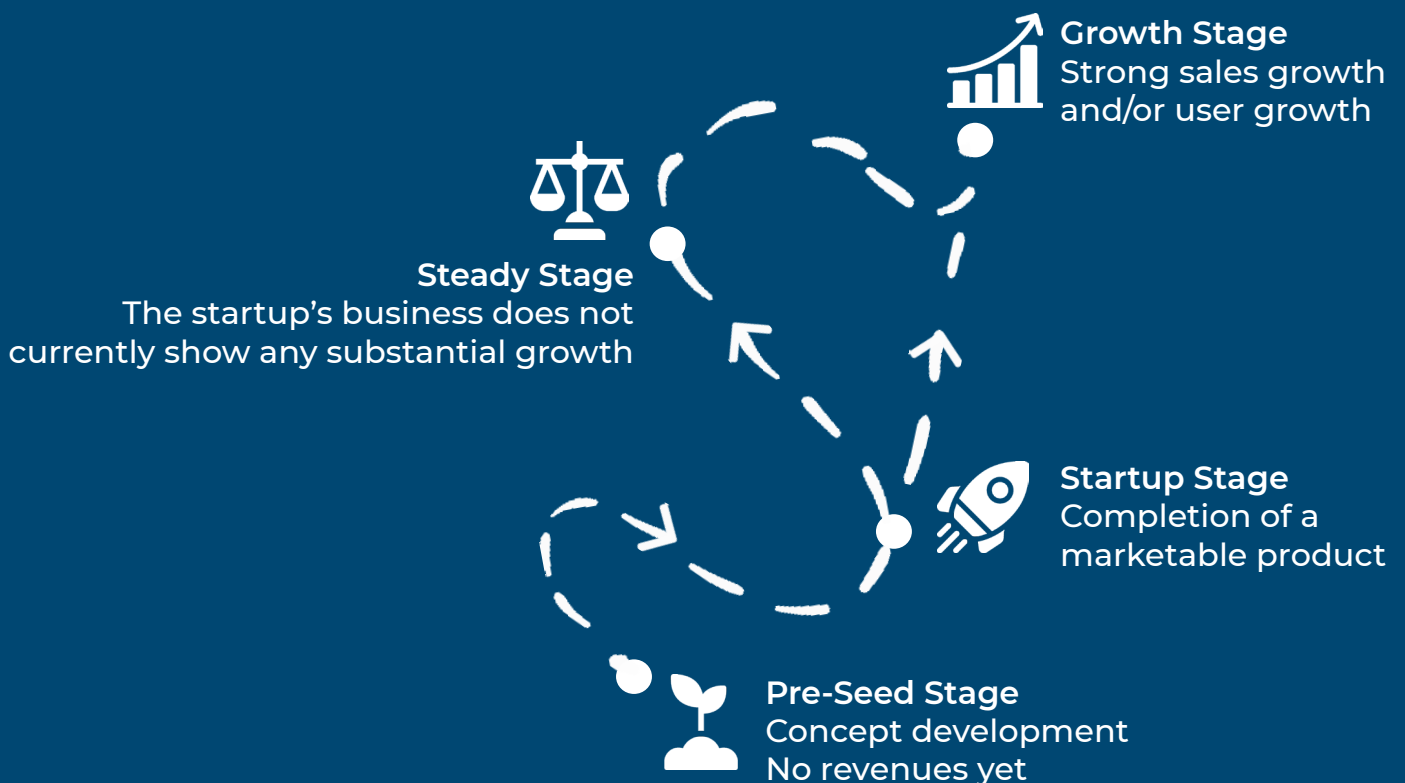
The term ‘startup’ has no commonly agreed official definition. Therefore, the researchers have used the following criteria:

- The company has to be younger than ten years
- It has to have an innovative product and/or service and/or business model
- The startup has to aim to scale up (intention to grow the number of employees and/or turnover and/or markets in which they operate)



Definition of “Stage of development”

For the purpose of the analysis, data have often been analysed per stage of development of the startup, using the categories reported below.





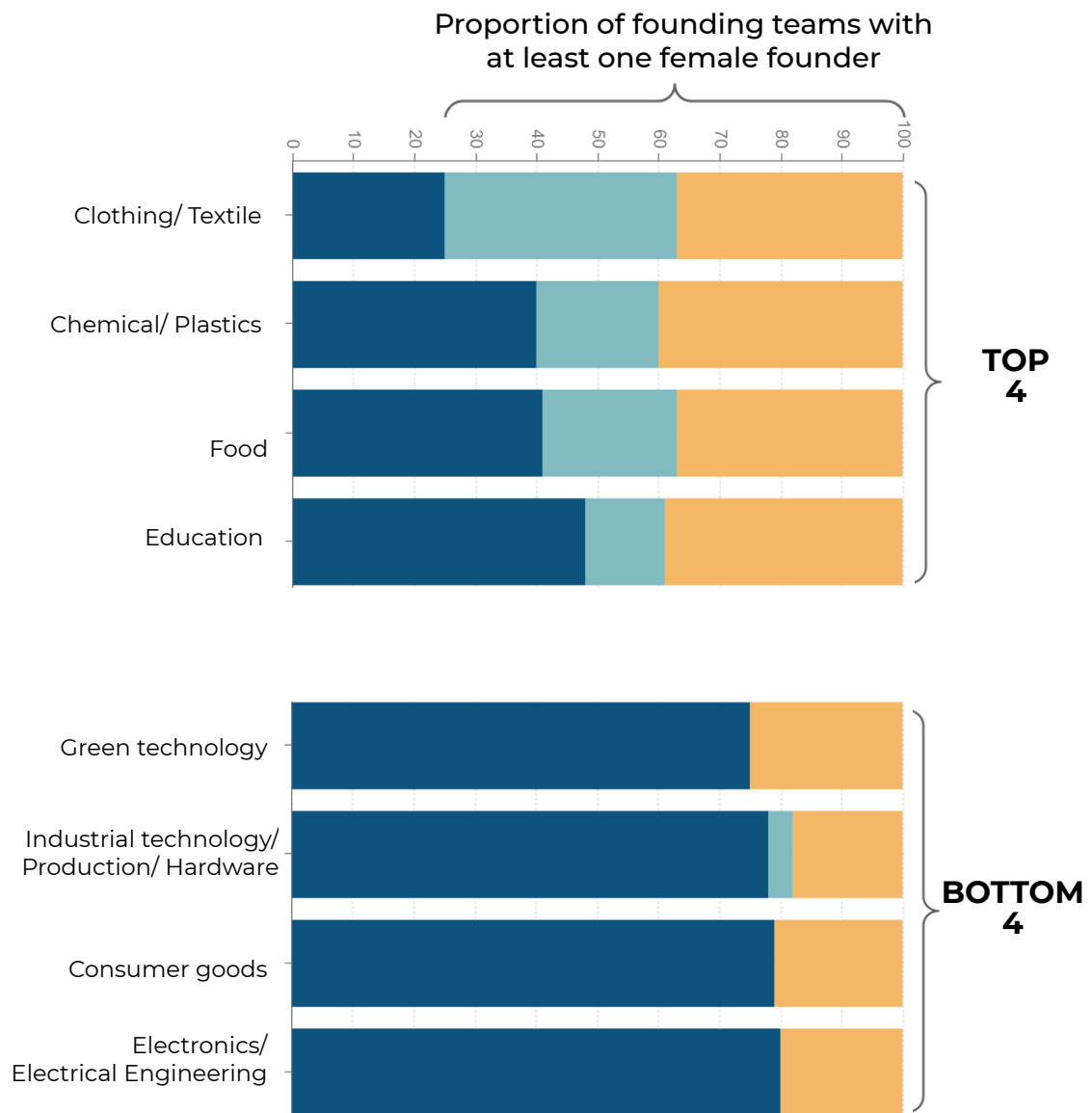
Founders' sectors and profiles

The vast majority of the startup founders are male and the average age for both male and female founders is 38.

As for the sector of activity, there is a general similarity in the distribution of founders among the different sectors. "Clothing/ textile", "Chemical/ plastic", "Food" and "Education" represent the sectors with the highest proportion of founding teams with at least one female founder.

Figure 1: Sectors with the least and top proportion of founding teams with at least one female founder *

* Each bar adds up to 100%



Proportion of teams composed by only male founders
 Proportion of teams composed by only female founders
 Proportion of teams composed by mixed gender founders



Founding team

Founding a startup is regularly a **cooperative endeavour:**

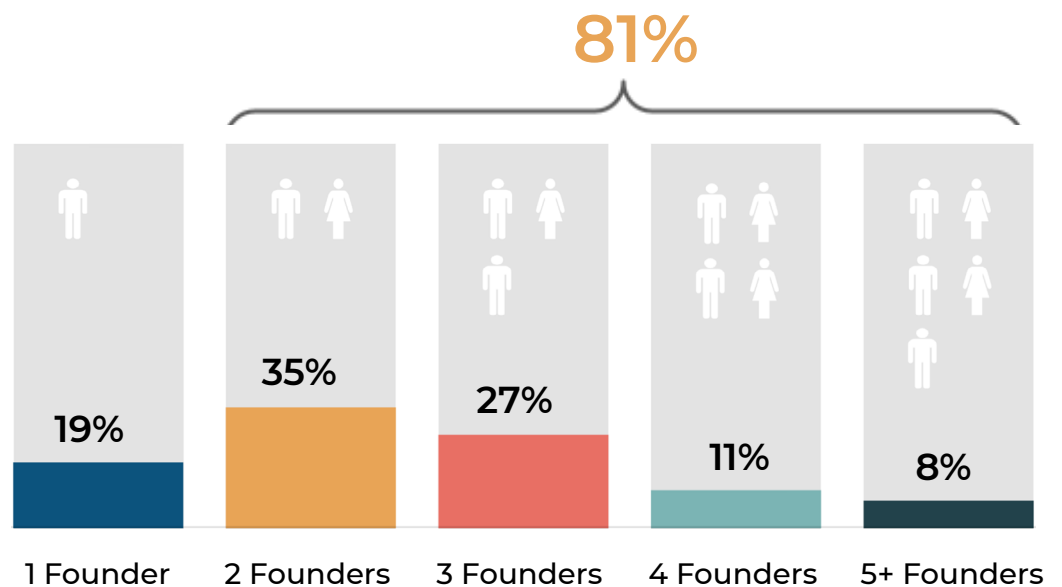
Only **19%** of the startups were founded by a single founder, while **81%** are a **team effort**



In 2020, founding a startup continues to be a team effort: **81%** of the startups were built as a team. On average, the team size is 2,6 founders. More than **60%** of the startups were founded by two or three people.

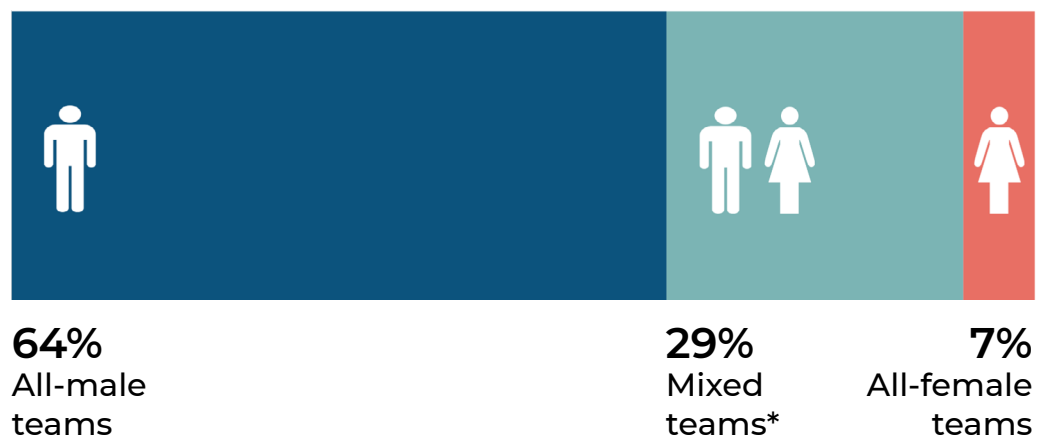
The number of startups founded by individuals decreased from 22% in 2019 to 19% this year.

Figure 2: Size of founding team



In terms of team composition, the all-male teams (64%) still represent the vast majority of the startups, even though, the share of exclusively male founding teams slightly declined from 67% in 2019 to 64% this year. Similarly, the mixed gender founding teams increased from 25% to 29%, which let us put forward the hypothesis that the mixed team trend is gaining more prominence within the startup ecosystem.

Figure 3: Gender balance in founding teams



* A mixed team includes at least one man and one woman



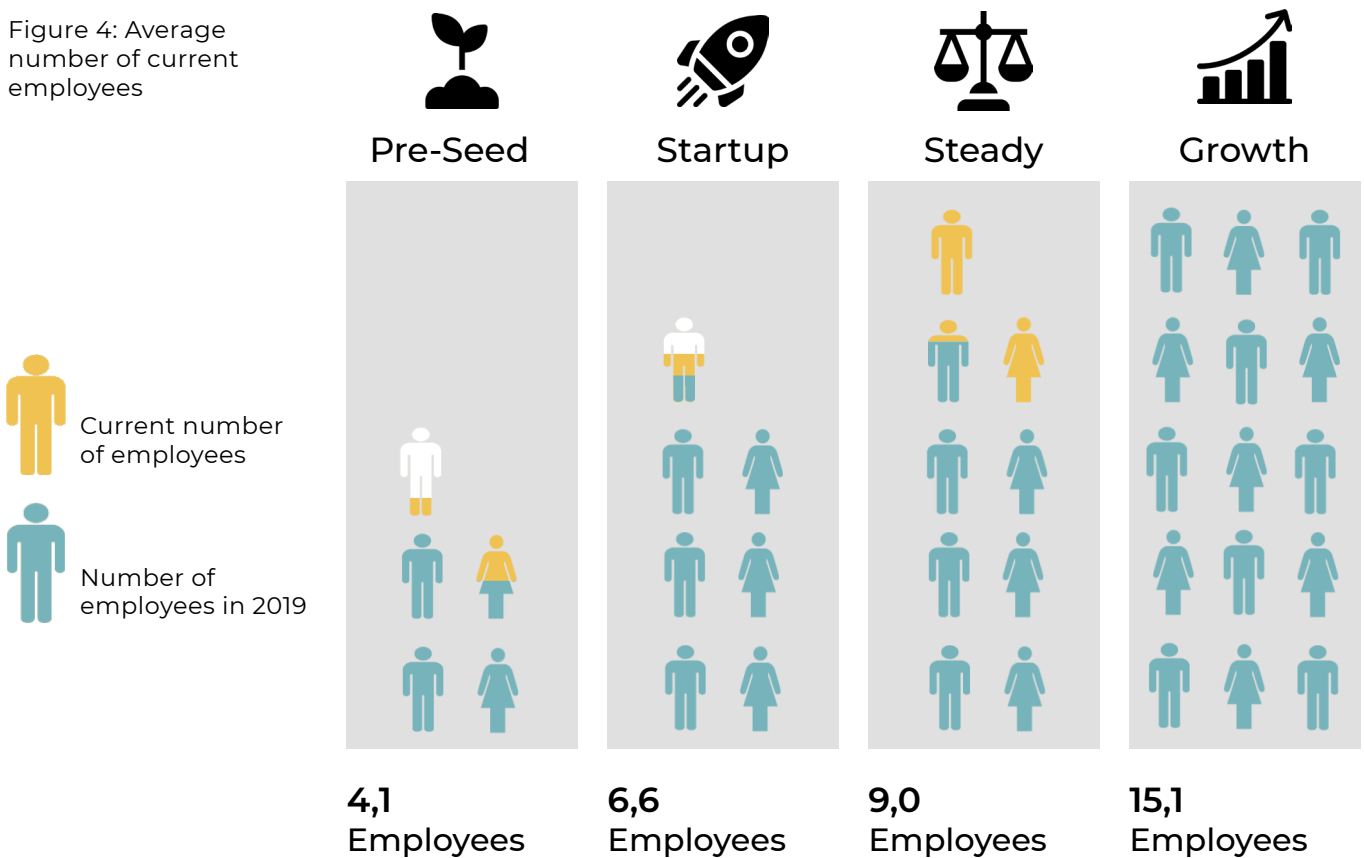
Employment creation by startups

The startups participating in the survey were asked about the current and planned number of employees. The average number of current employees still varies according to the stage of development of the startup.

In the pre-seed stage, the average current number of employees is **4,1**, which represents an increase of **20%** in comparison to last year. As the startup becomes more economically sound, the number of employees tends to increase in later stages.

The average in 2021 still remains **15,1** in the growth stage.

Figure 4: Average number of current employees

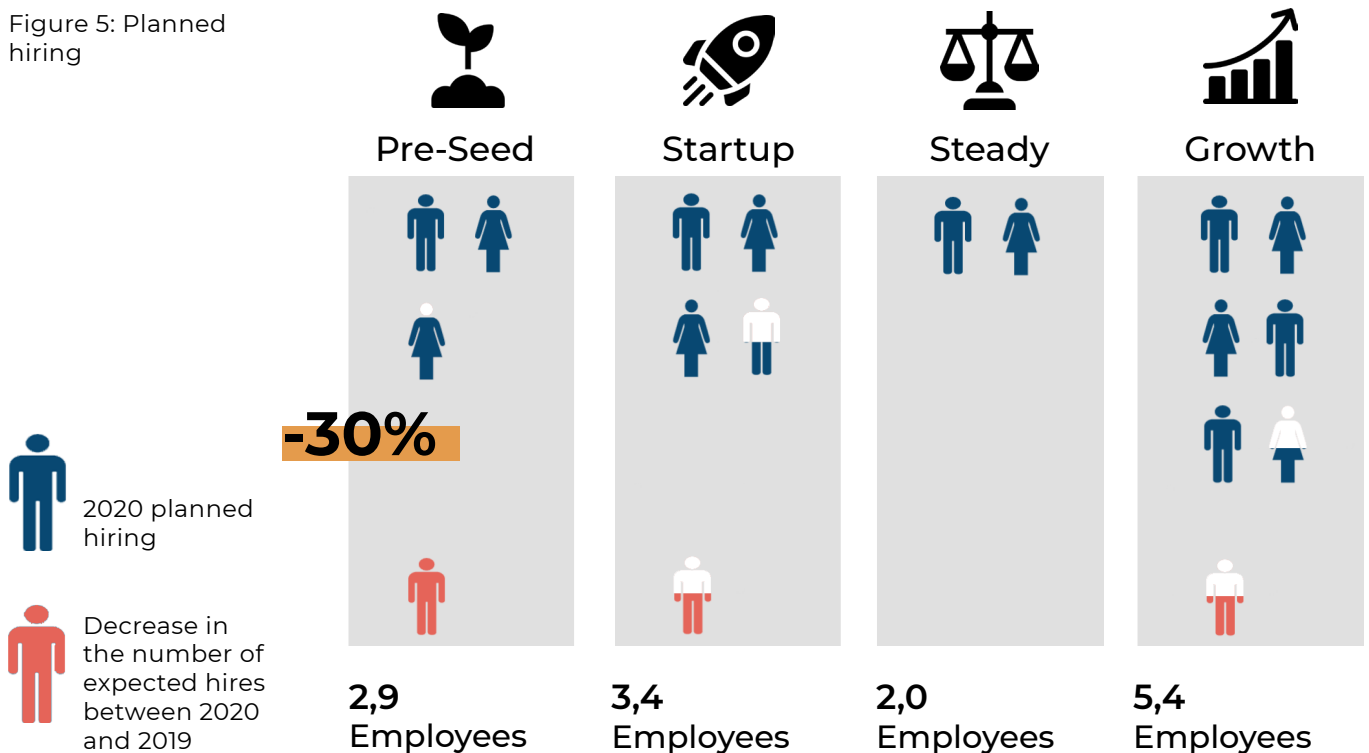




Regarding the average number of people that startups plan to hire in the next 12 months, the startups in the pre-seed and startup stage plan to hire **2,9** and **3,4** people on average. We can notice a decrease of **30%** for the pre-seed stage compared to last year.

This number decreases to an average of **2,0** for the startups in the steady stage. Startups in the growth stage plan to hire **5,4** people on average, which amounts a **9%** decrease regarding last year's average.

Figure 5: Planned hiring



 **This pandemic year sees a decrease in hiring plans**

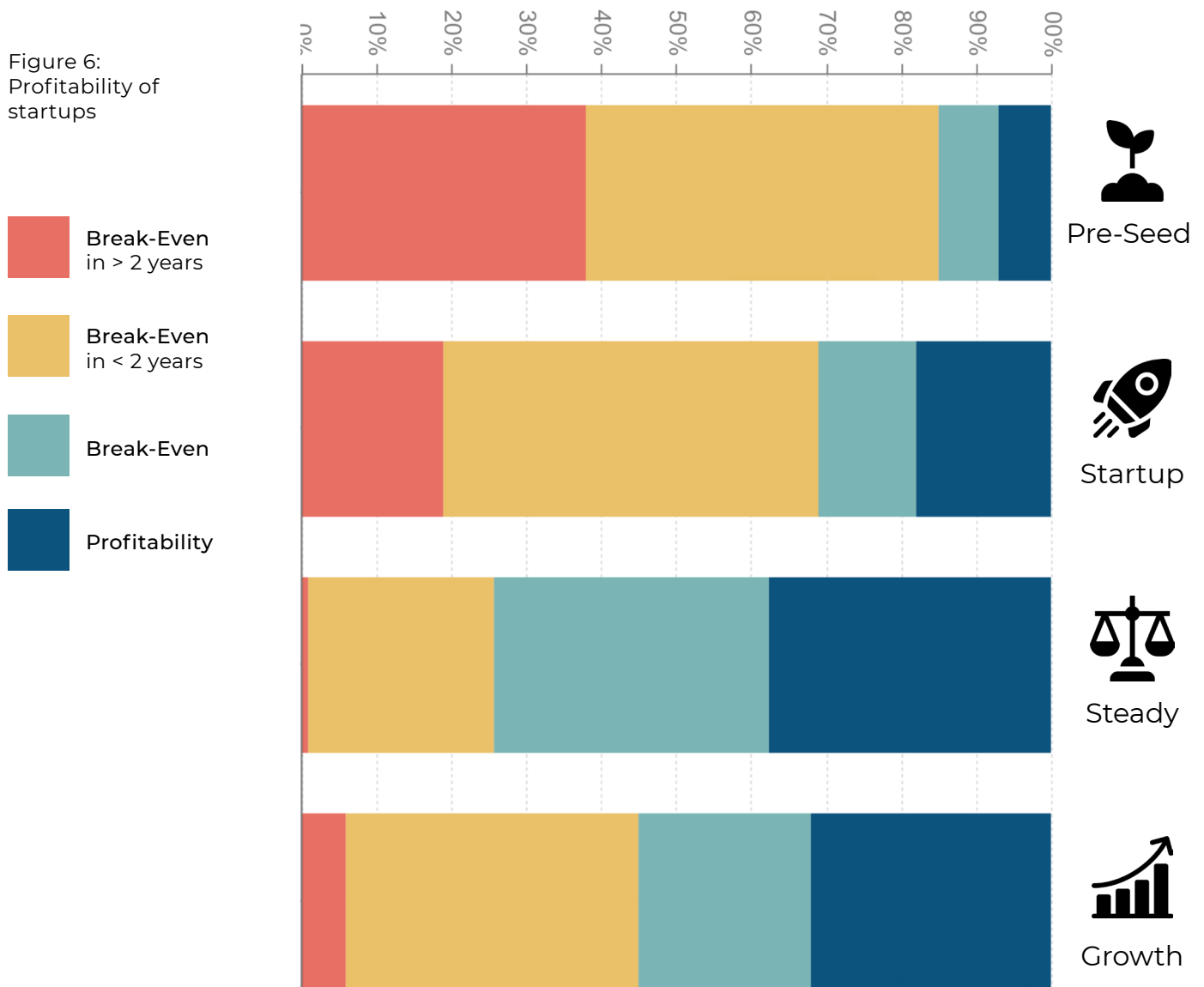


Profitability

As expected, the majority of the surveyed companies in the pre-seed and startup stage are not yet profitable. Indeed, in many cases, startups do not aim for profitability at the beginning, but invest in growth and increasing their own market share.

Most of those that are currently operating at a loss expect to break-even in less than 2 years (except in the pre-seed stage).

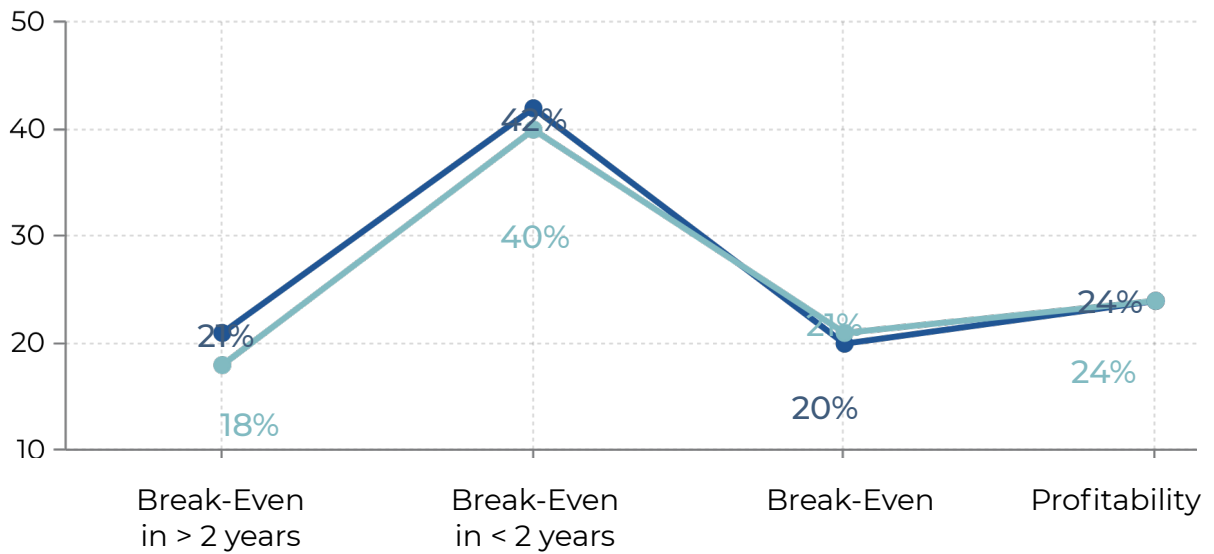
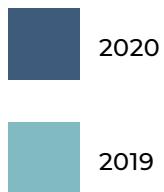
Figure 6:
Profitability of startups



The proportion of startups that are profitable remained the same, while the proportion of startups that are in break-even point slightly decreased compared to 2019

The proportion of startups that are expecting to break-even in the next two years and in more than two years deteriorates in 2020

Figure 7: Profitability comparison



Startups are expecting to need more time to become break-even

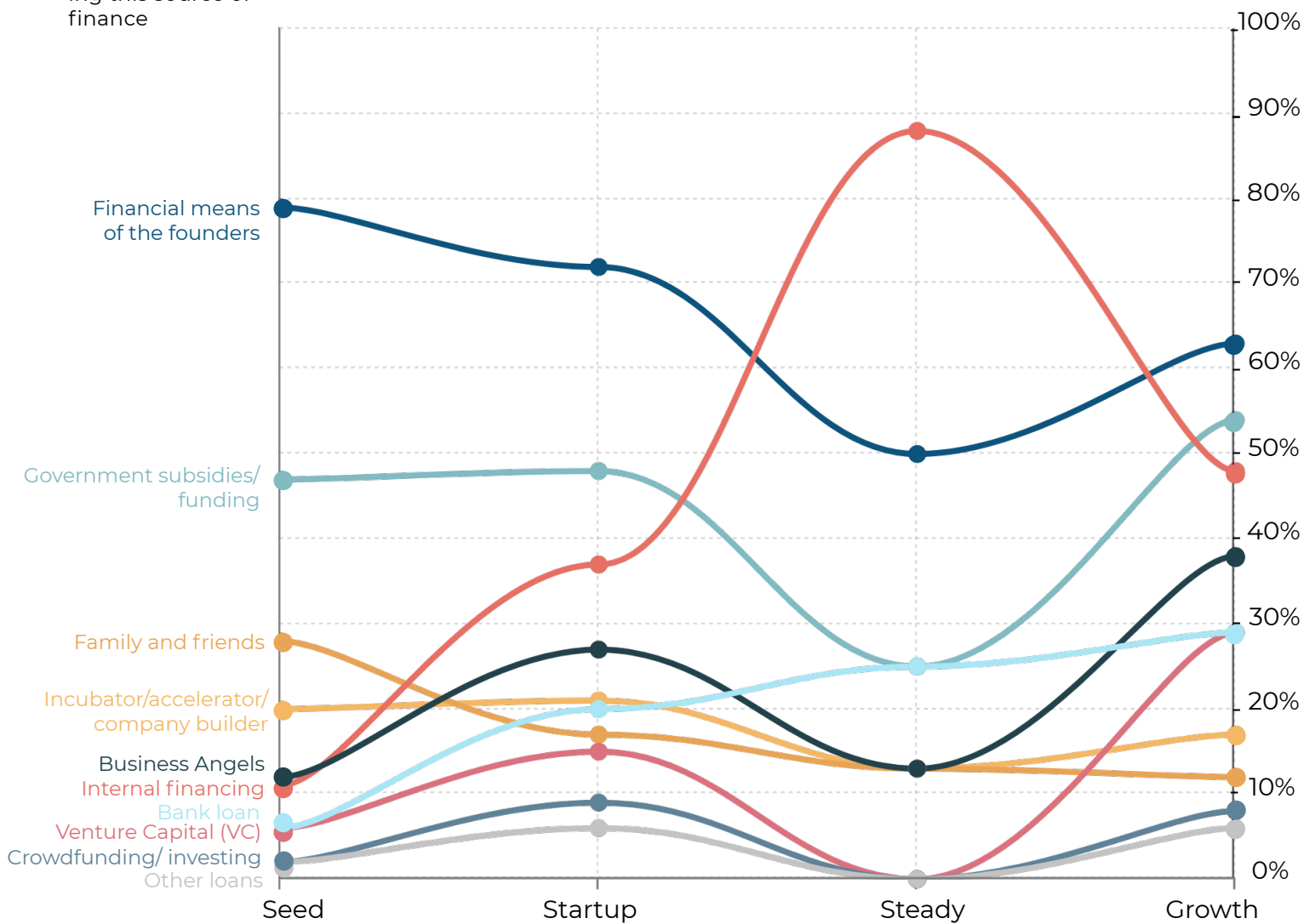




Sources of finance

With regards to the financing, both 2019 and 2020 ESM surveys have shown that each development stage is characterised by a different mix of sources of finance. Across all the development stages, we notice the use of own founders' savings. Yet, they are complemented by a different mix of other sources of finance depending on the stage, especially in the later stages.

Figure 8:
The proportion of startups indicating this source of finance



Accross all the development stages, 2/3 of the founders have mentioned their own financial means as one of financing sources

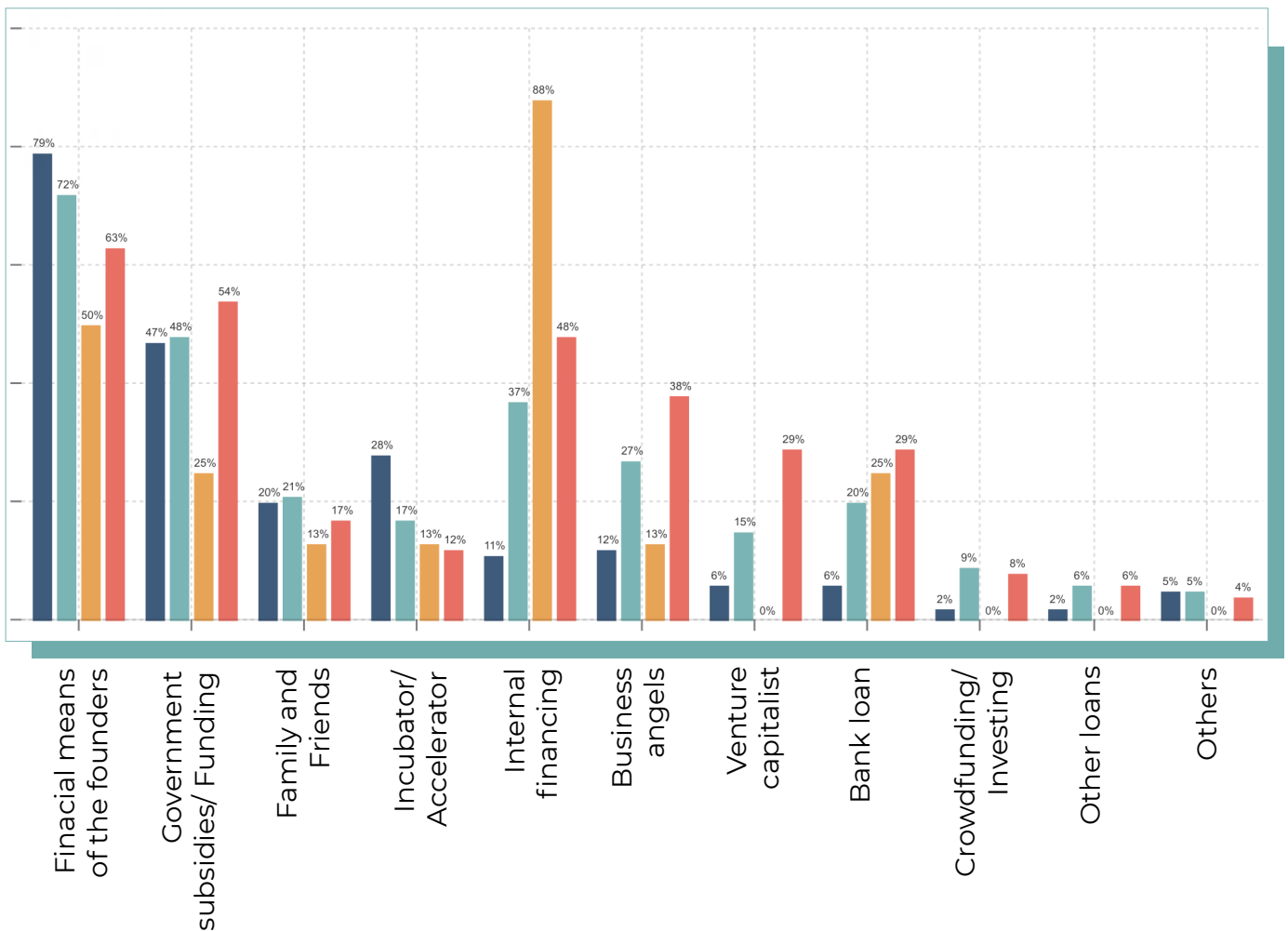


Figure 9:
Most frequent
source of finance
per stage of
development



The second most important source of funding is the internal financing (cash flow) with an average of 46%, followed by public funding and subsidies (43%). Business angels (24%), as well as bank loans (20%) acquire increasing prominence at later stages of development, when startups increase their market presence and consolidate their core activities.

Such a trend in increased use is also noticed in all other sources of finance, except for family and friends and incubators/accelerators. This latter outcome occurs because, as the startup grows, the resources provided by family and friends at a very early stage become too limited and the incubators/accelerators become less relevant.



Please note that these percentages do not reflect the proportional contribution to the total funding



It is worth noting that the steady stage is characterised by a drop in almost all financing sources, except for internal financing (cash flow) and bank loans. This is probably due to the lack of interest of smart capital in startups with poor growth prospects. In the development process of startups, it can generally be concluded that the financial means of the founders, and certainly the resources provided by family and friends, tend to slowly phase out as sources of finance and to be substituted or complemented by resources coming from external financial stakeholders.

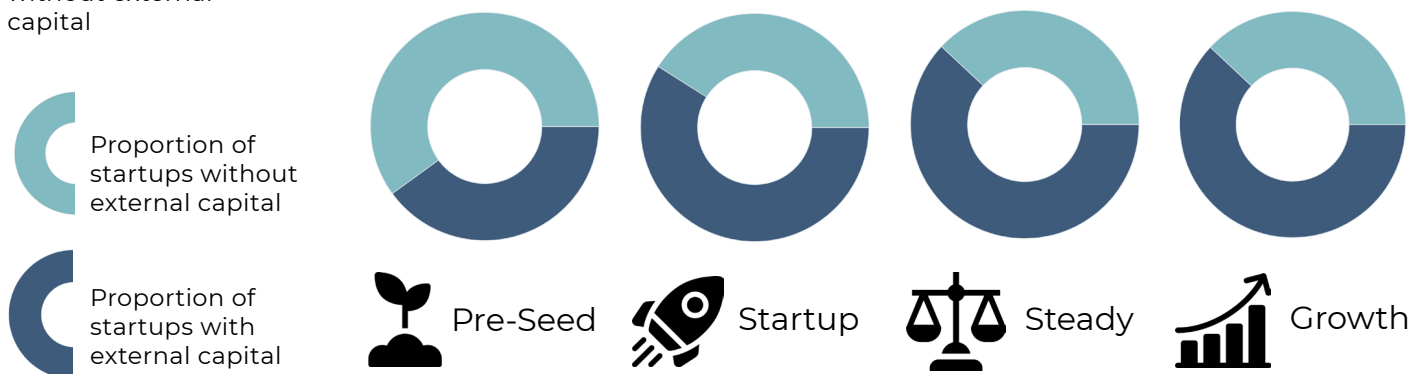
The only source of finance that remains almost constant in its relevance, apart from the general drop occurring at the steady stage, is government subsidies/funding.



Capital

54% of the interviewed startups state to have external capital source. Yet, the proportion tends to vary slightly with their development stage.

Figure 10:
Proportion
of startups with/
without external
capital



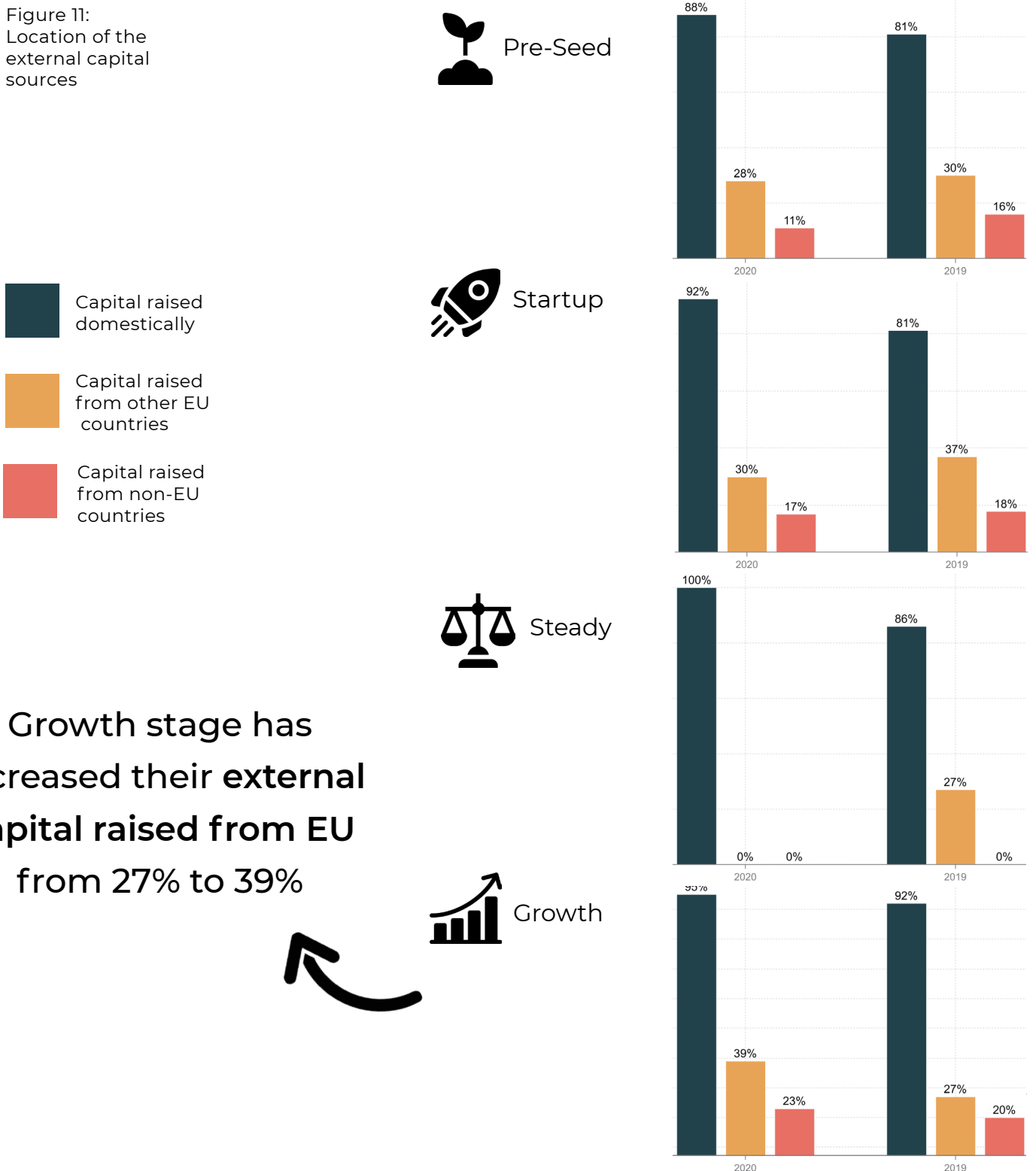
54%
of the startups have
an external capital



Most startups indicate that their external capital is raised domestically at each stage of development, with the highest proportion in the growth stage.

With respect to external capital raised from EU and non-EU countries, the proportion of the former is still higher than that of the latter, although the actual percentages tend to slightly change by stage. Also, compared to last year, the percentages of both are slightly lower at the pre-seed and startup stages.

Figure 11:
Location of the external capital sources





Public funding and grants

* This data doesn't include Austria

* Regional, national and EU grants

The surveyed startups* were asked whether they have applied for any means of governmental/public support. More than half of the public support are grants* (50,4%). The second most important source of public grants is the EU funding (49,2%), followed by tax subsidies (21,4%) and financial instruments intermediated by financial institutions (13,9%).

Figure 12: The means of governmental/public support

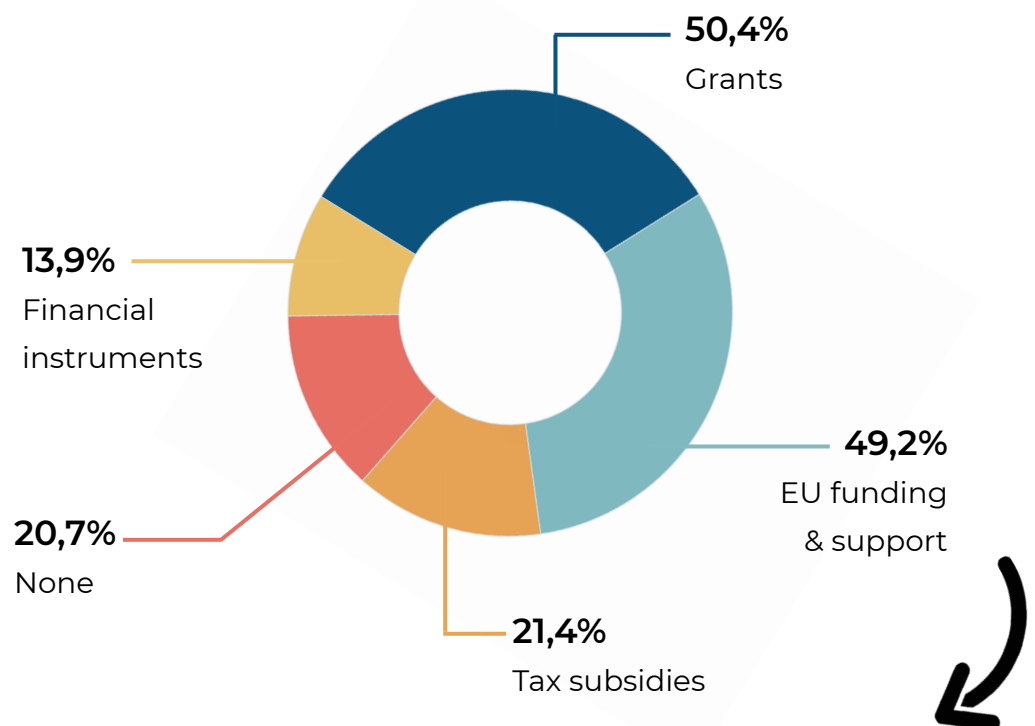
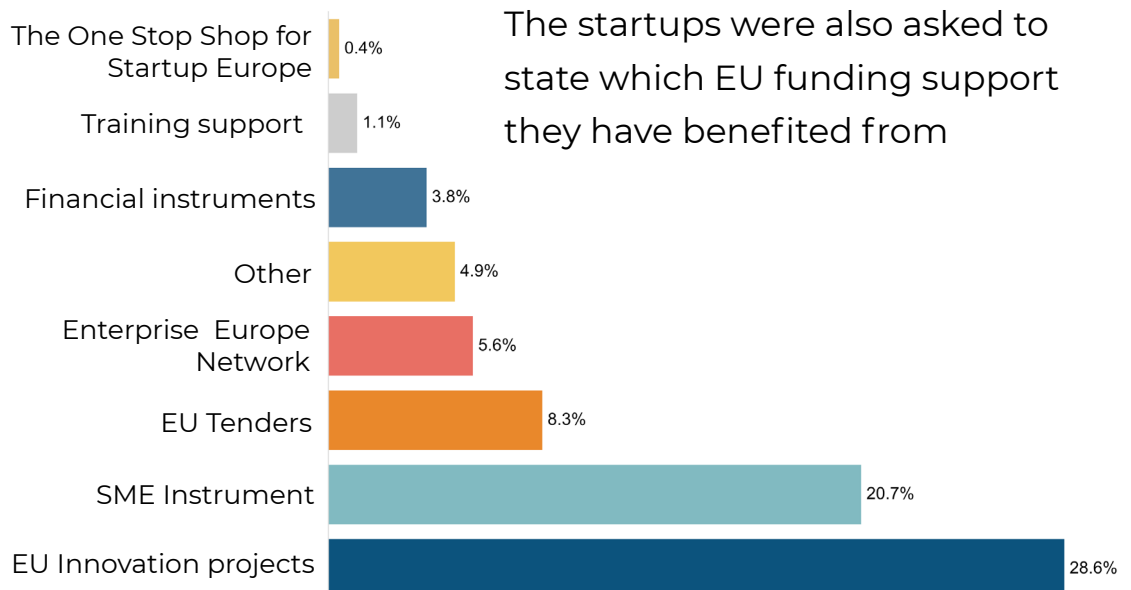


Figure 13: The most used EU funding & support



The startups were also asked to state which EU funding support they have benefited from



Internationalisation

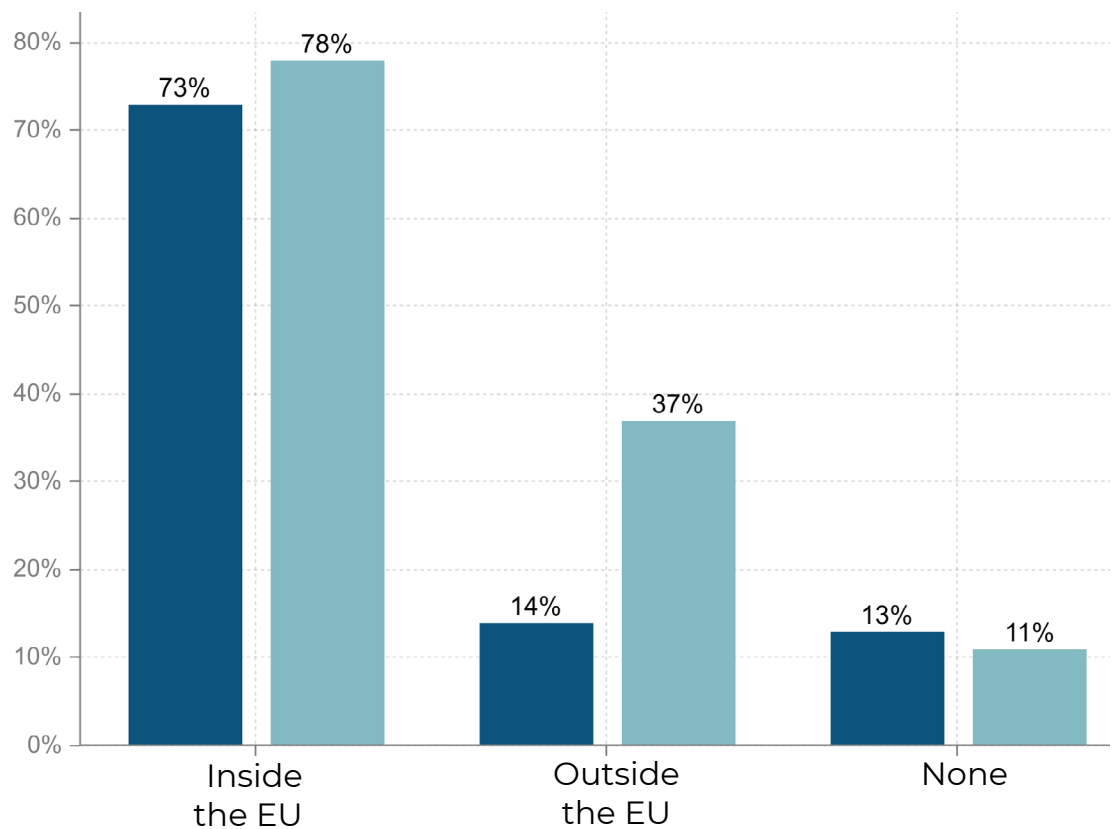
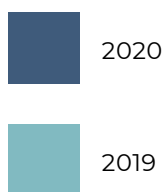
We asked the European startups whether they intend to enter new markets within the next 12 months.

The results show that 87% of the respondents plan to expand within the next 12 months. More specifically, 73% plan to expand within the EU and 14% outside of it. However, it is worth noting that the expansion outside the EU dropped by 62% this year, in comparison to last year - presumably a consequence of the current uncertain economic situation.

Only 13% of the surveyed startups do not plan to expand internationally in the next 12 months.

Figure 14:
Planned internationalisation (next 12 months)

Founders could choose more than one option, so the total in the bar graphs adds up to more than 100%



The expansion outside the EU has decreased by **more than half**



As reported in the previous ESM,

“Finding the right partners”,

“Lack of financial support”

and

“Legislative/regulatory barriers”

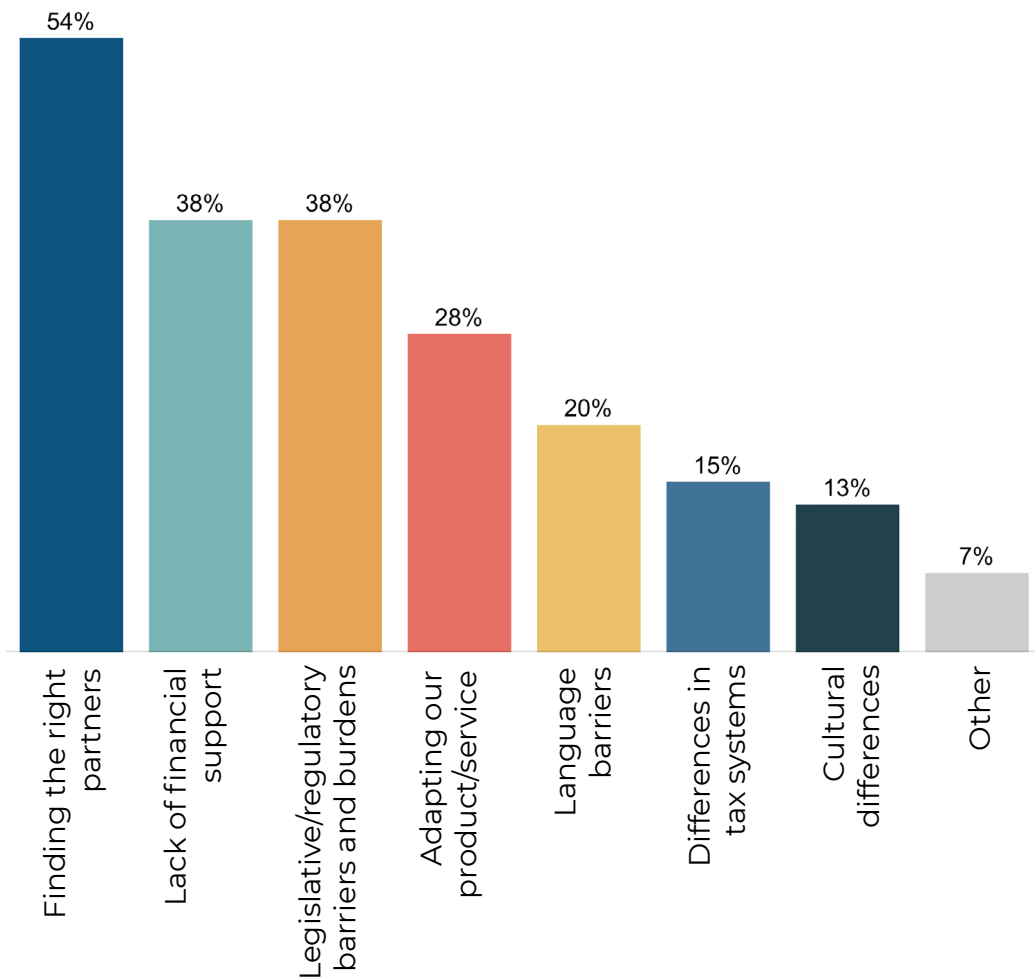
remain the most widely highlighted
barriers to internationalisation
according to the startups



In line with the previous ESM, “Finding the right partners”, “Lack of financial support” and “Legislative/regulatory barriers remain the most widely highlighted barriers to internationalisation according to the startups.

Figure 15:
Obstacles to internationalisation*

*Founders could choose more than one option, so the total in the bar graphs adds up to more than 100%



Relocation

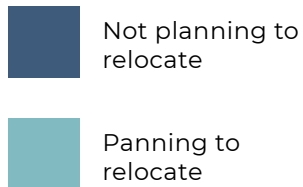
Around 10% of respondents* stated that they are planning to relocate their startup elsewhere in the next 12 months. Of these, the vast majority plan to relocate abroad, with the most popular destinations being Germany, USA, the Netherlands and Portugal.

* Data doesn't include Austria

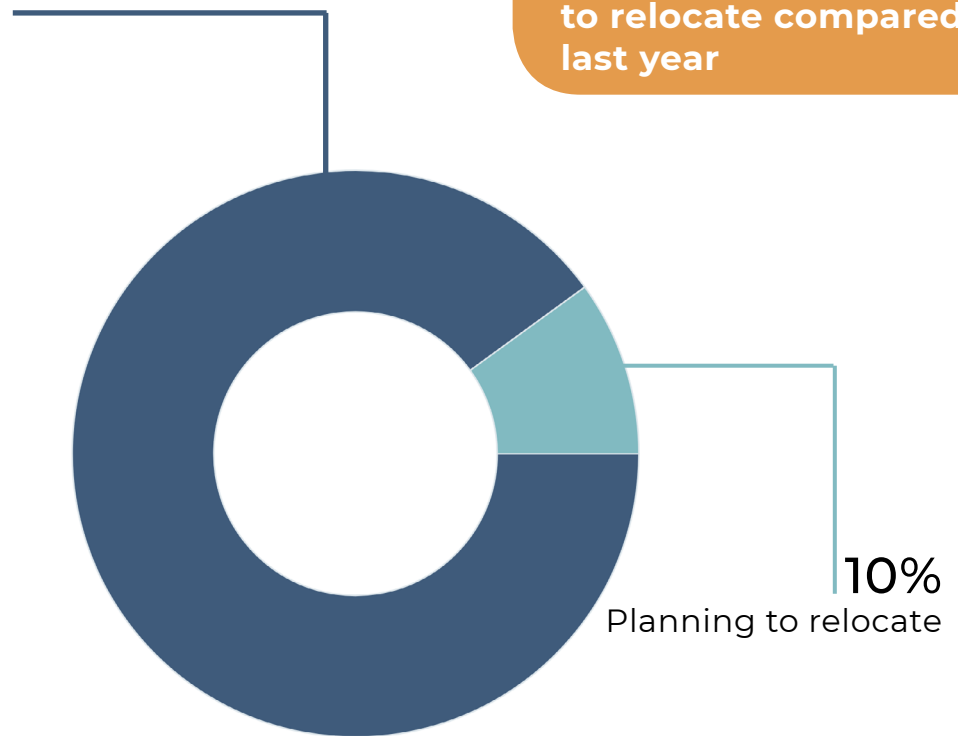


Relocation

Figure 16:
Intentions to
relocate (next 12
months) and most
popular destina-
tions

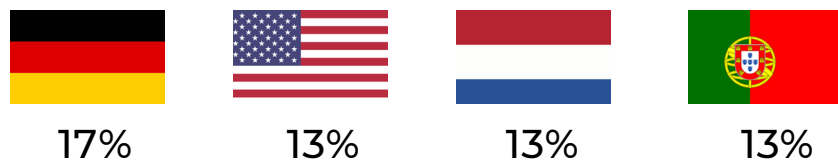


90%
Not planning to relocate



There is no significant variation in the intention to relocate compared to last year

Most popular countries to relocate:



Portugal is gaining startups' interest this year





Founders' opinion on their ecosystem

In the survey, the founders were asked to state what they liked and disliked about their national or local ecosystems. Opinions are varied but they generally focused on the following

Education system

According to the founders, Europe has the advantage of having a strong post-graduate education system, especially in innovation, technological, business and scientific fields. This allows startups to access high quality employees, and to foster co-innovation.

However, founders point out the lack of entrepreneurial education within universities.

Gender/ Race equality

Founders highlighted the importance of the cultural features of the society in which they live. For instance, some female founders mentioned that they deal with sexism and don't feel they have equal rights and opportunities as men which makes their business endeavour more strenuous.

Moreover, the same problems are also being faced by non-native founders; stringent immigration laws are considered problematic for them.

“In my opinion, we don't have the same opportunities as men.”



Business and culture bias

In general, founders appreciate the ecosystem in which they are located. Many mention the rise of the startup culture, the strong support they get from the local community and from the other ecosystem partners. They also emphasize the importance of the incubators and the startup associations.

However, they consider “the limiting beliefs”, “the low risk culture”, the “traditional mindsets” and the “reluctance to change” among some actors as a brake on their growth. For instance, some ecosystems are considered too risk-averse and tending to favour low-risk conservative businesses, while others are criticised for having an excessive focus on unicorns or on a limited number of technologies (such as blockchain, AI and SaaS).

Network

Founders found that establishing a strong network is important. In this matter, many praised the networking and exchanging opportunities within their local ecosystem.

Founder from
Spain
From the survey

“Like: networking & interconnection with public organization ”

State aid, private investing and financial incentives

In consistency with last year’s outcomes, founders underlined the availability of several aids, help, support and financing, especially in early stages. Yet, these resources tend to decrease, neglecting thereby later stages. It is also worth noting that some founders complained about the lack of financial support during COVID-19 crisis.

Founder from
Spain
From the survey

“Dislike: lack of funding, VCs, BAs and limited access to large corporations”

“I like the strong support from large industries and the open innovation.
I would like more interactions with other startups.”

Founder from France



Bureaucracy

Always in line with last year's outcome, many founders still find that the speed at which public institutions and agencies perform their activities is in discrepancy with the pace at which startups are operating. Moreover, founders consider that the public institutions need to be more involved in the startup ecosystem. Actually, founders find that several difficulties may be overcome should the public institutions have a better understanding of the startups' needs and culture. For instance, public institutions can implement initiatives to foster developing MVP's and PoC's.

Founders are nonetheless welcoming the increased digitalisation of the public administration.

Legislation

Once again, founders point out the impact of the traditional business mindset on legislation. Actually, besides the taxation system, the legal burden and the rigidity in setting up a company, they find that the European regulation is not designed for startups and scale-ups.

Moreover, legislation is among the impediments to the European startups' worldwide expansion. Also, immigration laws can create difficulties for founders who want to attract skilled labour from abroad.

Founder from
Italy
From the survey

“The European startup ecosystem is too fragmented and it is very hard to scale up at a continental level - by comparison, American or Chinese companies have a much bigger market. Also, European regulation is outdated.”

Even though some founders appreciate the several programs, training and opportunities for funding in Europe, many underlined the poor attractiveness for external investors and the lack of available financing options

Some founders suggested creating a European state fund for co-investments



Founder from
Austria
From the survey

Language

Many non-native founders appreciate the possibility of using English as a lingua franca for their business and administrative activities. This speeds-up procedures and helps to build a network. Thereby, some suggest introducing English further into public sector's websites.

“Dislike: too little understanding of the necessary speeds or resources.”

Tax Burden

The taxation system is considered as a significant burden both in terms of its overall weight and fairness. They suggest having tax relieves/deductions for entrepreneurs. On another note, the tax wedge is also considered important, as it often impedes hiring and retaining much needed human capital.

Human Capital

As for the human capital, founders appreciate the highly educated employees, and the growing enthusiasm for startups by young talented collaborators. Nevertheless, startups face difficulties in hiring due to the high charges on wage and the brain drain. It should also be said that startups are often unable to compete with wages offered by big companies even for entry level positions, which makes competition with these big players even harder.



Quality/Cost of life

Costs related to wages, business creation and office spaces are often mentioned as burdens in the opinions given by founders about their ecosystem. Also, in some countries, corruption and low income for instance, are considered as hindering to the startups.

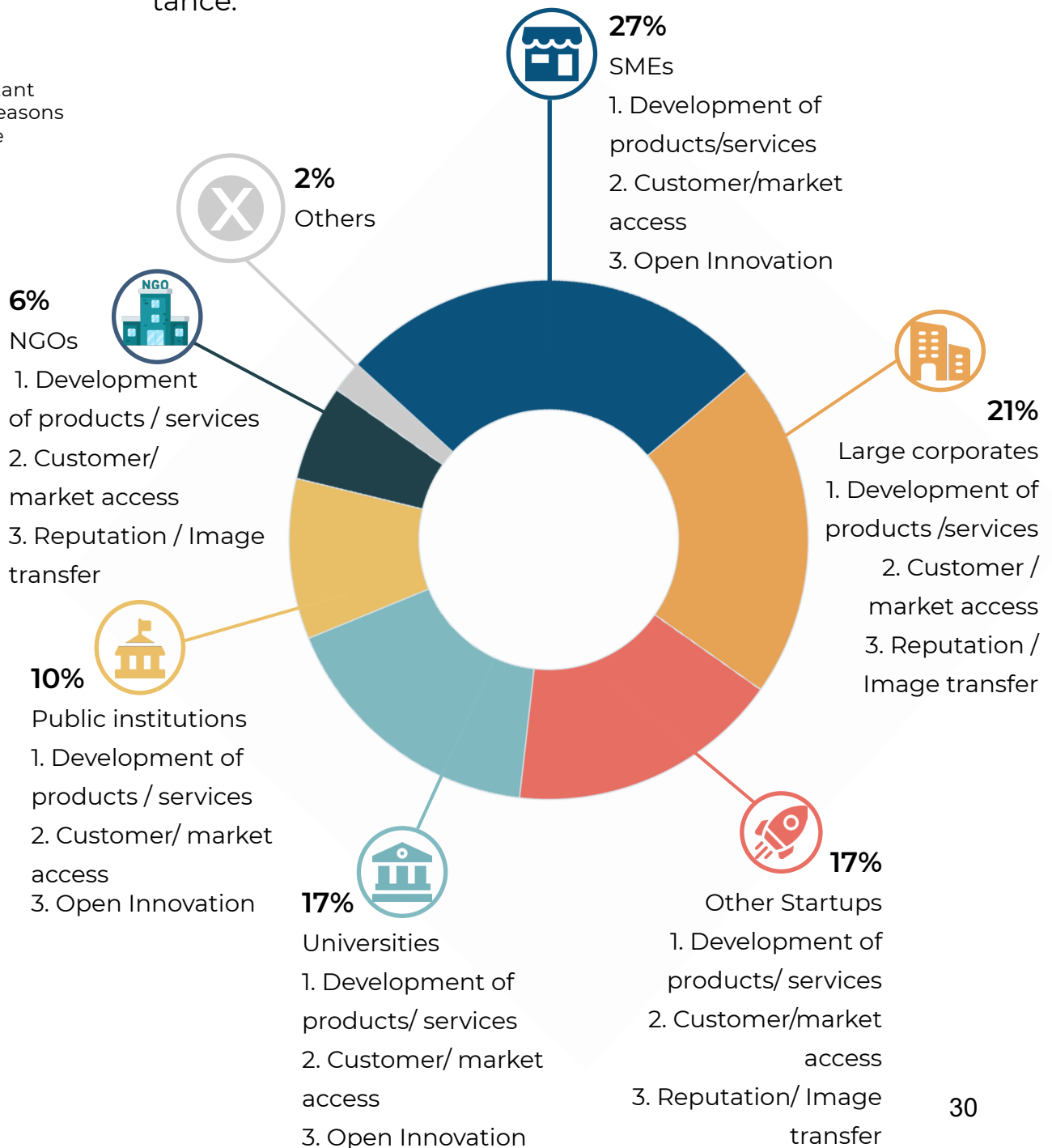
However it should be emphasized that most founders appreciate the high quality of life, the safety, and the political & economic stability within the EU countries.



Cooperation

The results of the survey confirm that the vast majority of startups cooperate with relevant stakeholders. It is worth noting that SMEs are the most frequent partners for cooperation at any stage of development. Indeed, the data shows that 27% of the startup respondents indicate SMEs as the most important partner they cooperate with, followed by large corporations. These two stakeholders significantly outrank the remaining ones in terms of importance.

Figure 17:
Most important partners & reasons to cooperate





As for the reasons for cooperation with the different stakeholders, they tend to be cross-cutting, even though their relative importance changes for each stakeholder.

Yet, it is relevant to state that “Development of products/ services”, “Customer/ Market access”, “Reputation/ image transfer” are among the top ranked cooperation’s incentives.

Only 8% of startups
in all the different stages
do not cooperate at all



This is a reduction by half
compared to last year



Success factors

Consistent with findings highlighted last year, “choosing the right co-founding team” still remains as the most important startup success factor, which once again strengthens the evidence for startups being a collaborative strength.

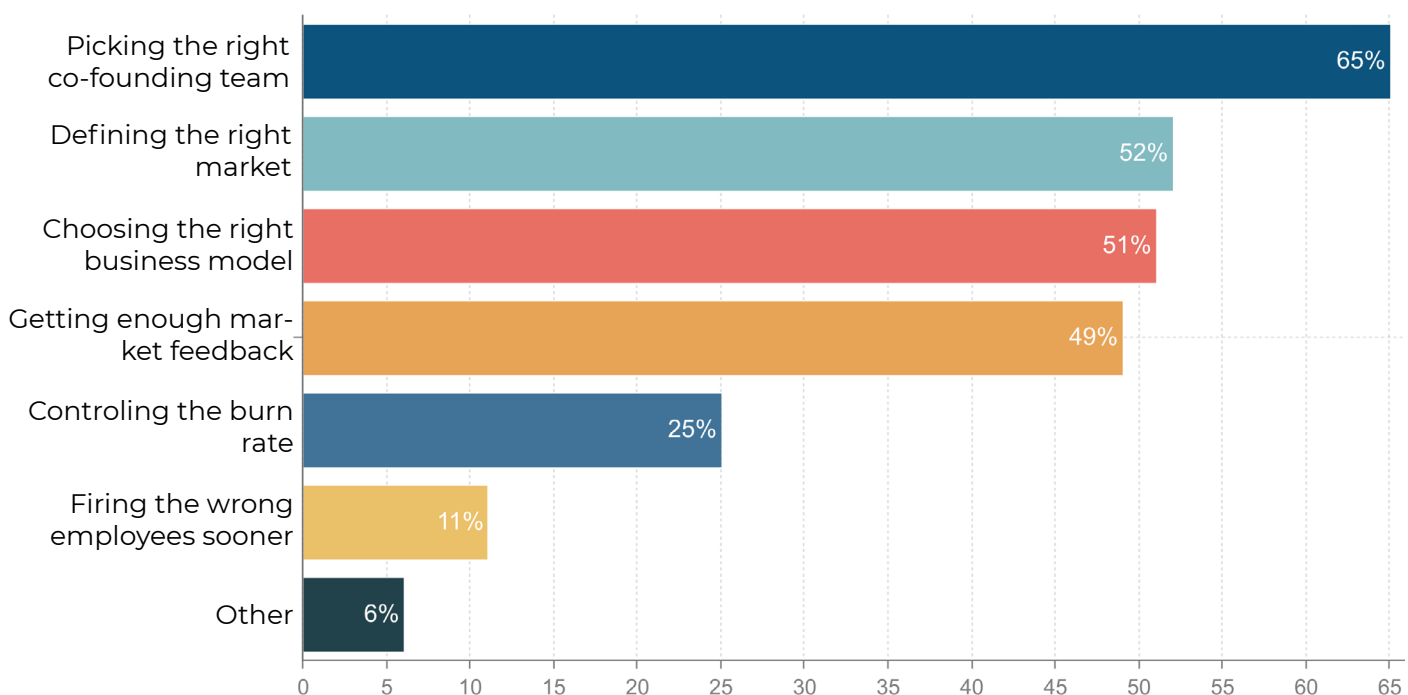


Figure 18:
Most important
success factors for
a startup

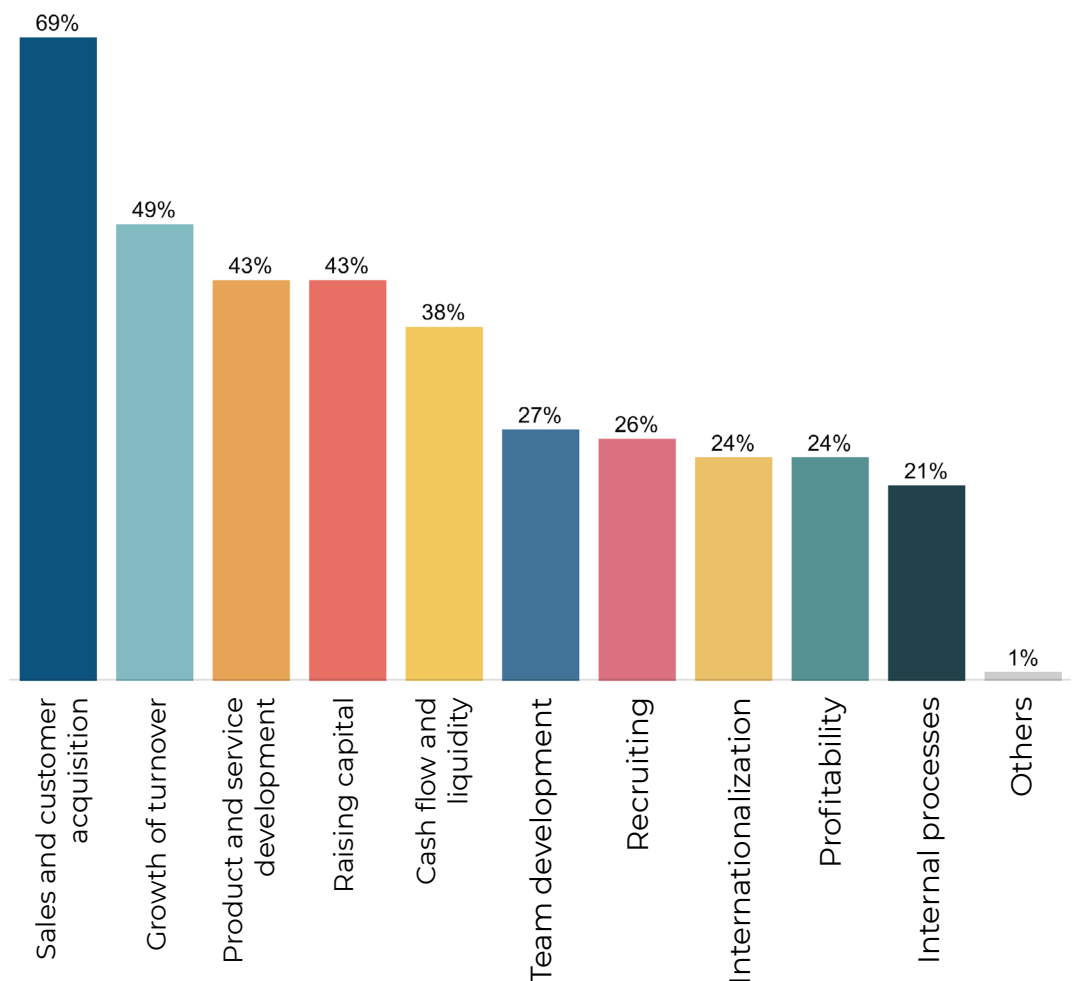
“Choosing the right business model”, “defining the right market” and “getting enough market feedbacks” are also of major importance when it comes to startups success factors for founders.



Business challenges

The challenges startups face vary in terms of relative importance according to their stage of development. However, some challenges remain more or less important in all the development stages. For instance, the majority of startups even in their later stages have responded that they consider “Sales and customer acquisition” and “Product and service development” as current challenges.

Figure 19:
Main business
challenges accross
all development
stages





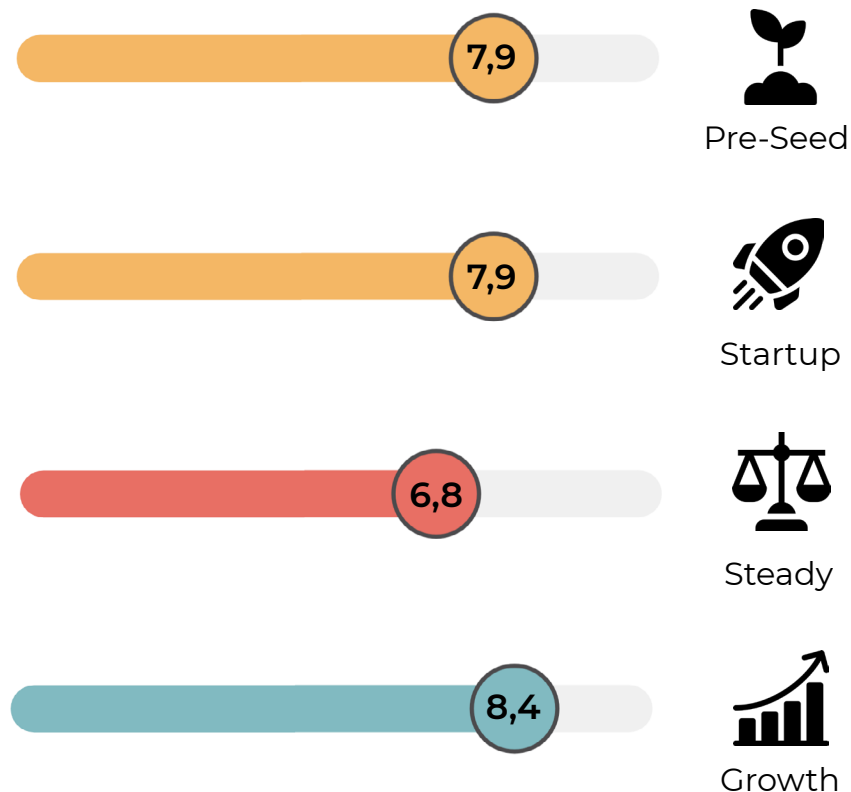
COVID-19 impact

The startups were asked about the pandemic's impact of on their current situation.

1. How optimistic are you that your startup will survive the current crisis?

The founders are really optimistic that their startup will survive the current crisis. For the pre-seed stage, founders gave an average of 7,9. The startup stage got a 7,9 on average, 8,4 for the growth stage, while the steady stage had the lowest average of 6,8.

Figure 20:
How optimistic are the startups to survive the COVID-19 crisis (on a 0-10 scale)



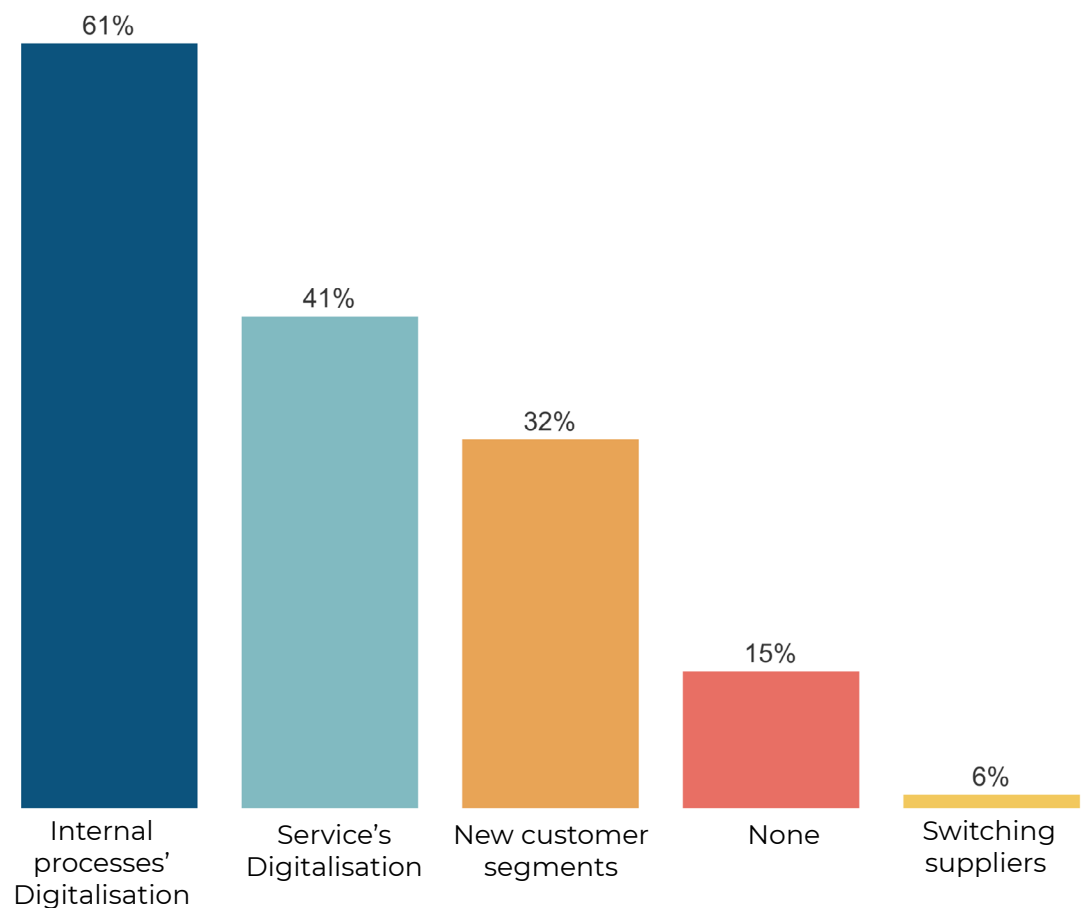


2. How did your startup react to the crisis?

It comes as no surprise that 61% of respondents claimed that they had to adapt to the crisis by digitalizing internal processes such as their cloud solutions and teleworking. Also, 41% has digitalized their service offering.

The market challenges might often be opportunities. In this regard, 32% of the survey respondents had to open up to new customer segments. It is also worth noting that 15% of the interviewees didn't have to make any changes within their startups.

Figure 21:
How did the start-ups react to the crisis?



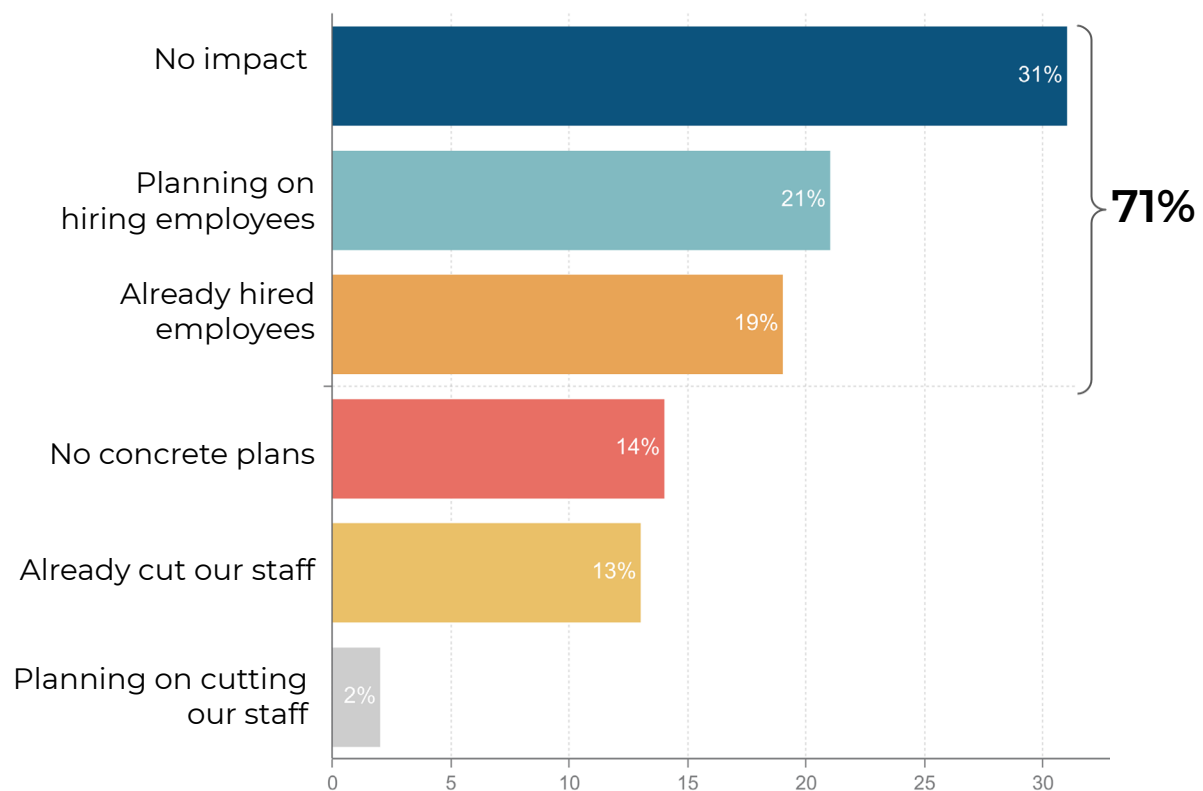


3. What impact of the COVID-19 situation on your staff?

Contrary to what one might expect, only 13% of respondents had to lay off employees. Surprisingly, 40% of the startups had hired or are intending to hire employees, while 31% stated that COVID -19 crisis had no impact on their employees' situation.

Figure 22:
Covid's impact on
the staff*

*This data doesn't
include Austria



71%

of the startups had no
negative impact on their
staff because of COVID-19

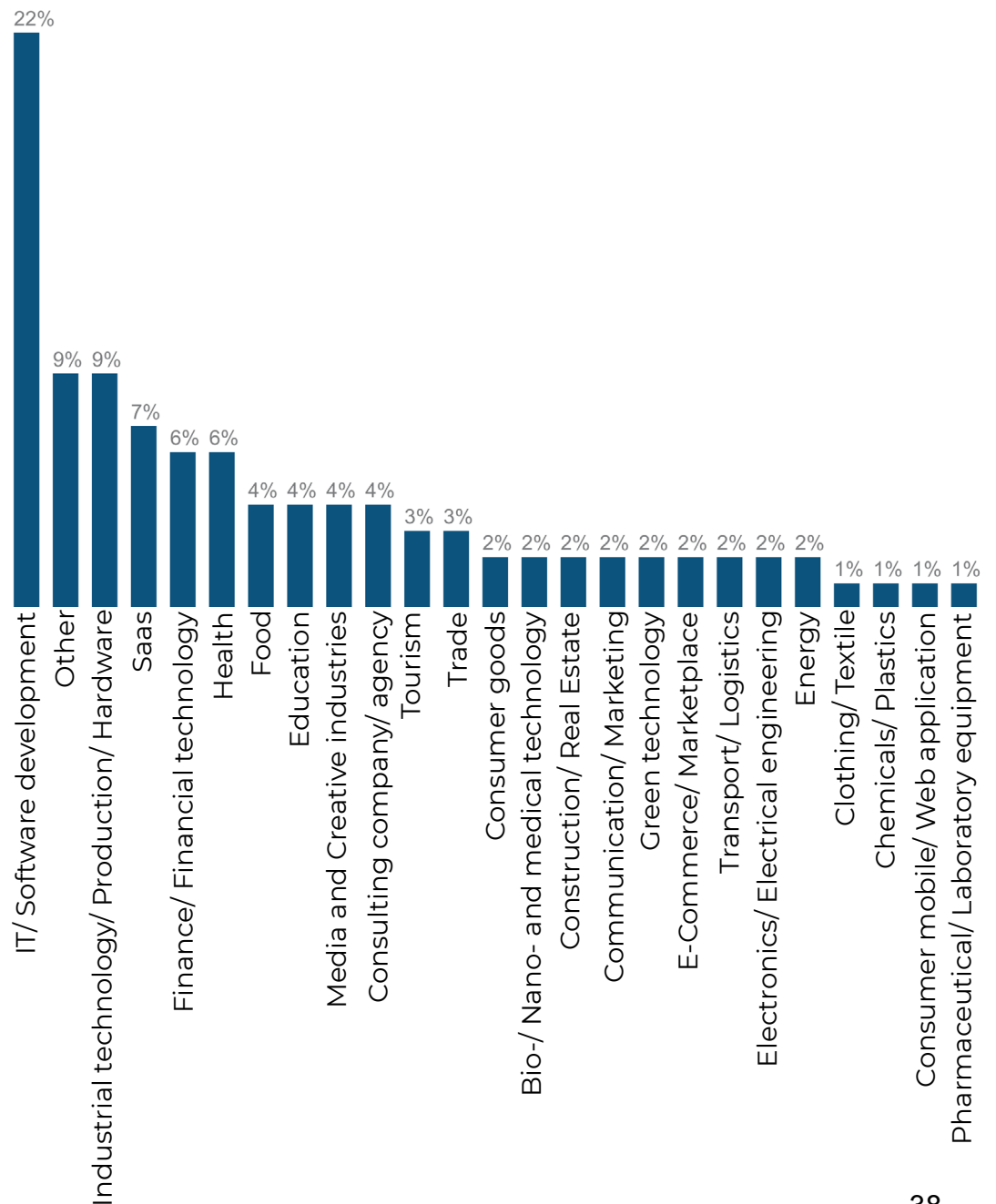


Methodology

The data were collected through an online survey aimed at startup founders, run in cooperation with many practitioner supporters, startup associations and a variety of ecosystem stakeholders.

The survey remained open from mid-November 2020 until the 12th of March 2021 and collected 679 valid responses from different EU countries.

Figure 23 :
Proportion of the
responses per
sectors





The countries included in the study are: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom

Limitations

Some limitations to the study must be taken into account when drawing conclusions from the findings. Firstly, the European Startup Monitor did not have the ambition to have a full coverage of all the startups in Europe, which, needless to say, outsizes the sample by at least one order of magnitude. The researchers focused on analysing the data per stage of development of the startups. This led to sizable categories and to the ability to make the findings and their comparison significant, with the exception of the steady stage category, which is very small in relative terms.

Secondly, the data for Austria have been collected through a dedicated survey, with an approach that was mostly, but not completely, aligned with the main survey. The general similarity between the two surveys allowed to analyse their data jointly, but some differences made it impossible to use the data for Austria for some specific analyses.



Authors



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Jan Bormans

Jan Bormans, Ph.D., MBA, has been active in the fields of innovation and entrepreneurship for more than 20 years. Jan was strategy advisor at the IMEC research centre and valorisation manager of the Flanders DC knowledge centre. He has been actively involved in various startup initiatives such as startups.be since 2010. Jan's passion is working with people to make innovation and entrepreneurial creativity happen. He has a substantial background in high-tech and uniquely combines this with extensive experience in corporate innovation. From 2019 on, Jan is the CEO of the European Startup Network.



Massimo Privitera
Communications and
Policy Coordinator
European Startup
Network

Massimo Privitera

Massimo holds a Master's Degree in "European Economy and Business Law" and has acquired substantial experience in the realm of EU policy working in Brussels for consultancies and NGOs. He is the former Acting Director of the European Network for Social Integration Enterprises (ENSIE). At ESN, he is in charge of analysing the policy landscape relating to startups and contributing to future policy developments. Massimo also handles internal and external communication for the network, ensuring that ESN maintains strong relationships between member associations and creates connections with new partners on a consistent basis.



Karan Novo

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European Startup

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Karan Raúl Novo Devani

Karan Novo is a recent graduate in Economics and already has experience in European Projects as he has worked in the Chamber of Commerce of Santiago de Compostela. He now enrolls in the European Startup Network to get to know the entrepreneurial and start-up environment from the capital of Europe. His eagerness is to make a difference in the life of the startups with the help of European Projects.



Rania Arrami

Business Intern

European Startup

Network

Rania Arrami

Passionate about everything that involves startups and innovation, Rania pursued her studies in Entrepreneurship after her Master's degree in architecture. She decided to start her new business journey at European Startup Network because she strives to be part of the change by helping startups to succeed.



Acknowledgements

The research was made possible by the technical contribution of many different actors.

ESN Members:



Special thanks to Austrian startups for the intense collaboration and alignment for international and national monitor surveys.





About ESN

European Startup Network (ESN) is an independent not-for-profit network organisation unifying 31 national startup associations that aims to create a common voice for European startups and scaleups. It is ESN's firm belief that one single startup ecosystem is essential to allow all European startups to scale globally. By connecting the most relevant national startup associations, ESN aims to open up access to talent, expertise, funds, and customers. ESN houses a joint representation of 30,000+ startups and a social media reach of more than 100k followers on the major platforms.

ESN activities focus on 3 domains:

- Creating strong(er) European startup ecosystems by exchanging best practices and reducing fragmentation between stakeholders;
- Consistent data analysis & crowdsourcing of insights to support policy making, including cross-border analysis (e.g., European Startup Monitor) and formulating consensus on policy priorities (e.g., European ScaleUp Manifesto);
- Piloting new collaboration formats with startups.

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