



European Startup Monitor 2016 – Country Report Germany

Authors: Prof. Dr. Tobias Kollmann, Dr. Christoph Stöckmann,
M. Sc. Simon Hensellek, M. Sc. Julia Kensbock

Introduction

The European Startup Monitor (ESM) 2016 was again able to increase the number of total respondents and it now represents 2,515 startups, 6,340 founders, and 23,774 employees with a considerable share coming from Germany. Based on the concept introduced in the first ESM (2015), startups in this study are defined by three characteristics:

- Startups are younger than 10 years.
- Startups feature (highly) innovative technologies and/or business models.
- Startups have (strive for) significant employee and/or sales growth.

The ESM has three goals:

- To present the development and significance of startups and identify research gaps.
- To outline economic initiatives that will strengthen the national and regional startup ecosystems of Europe.
- To cultivate enthusiasm for entrepreneurship in society.

Main Findings of the European Startup Monitor 2016 for Germany in Brief

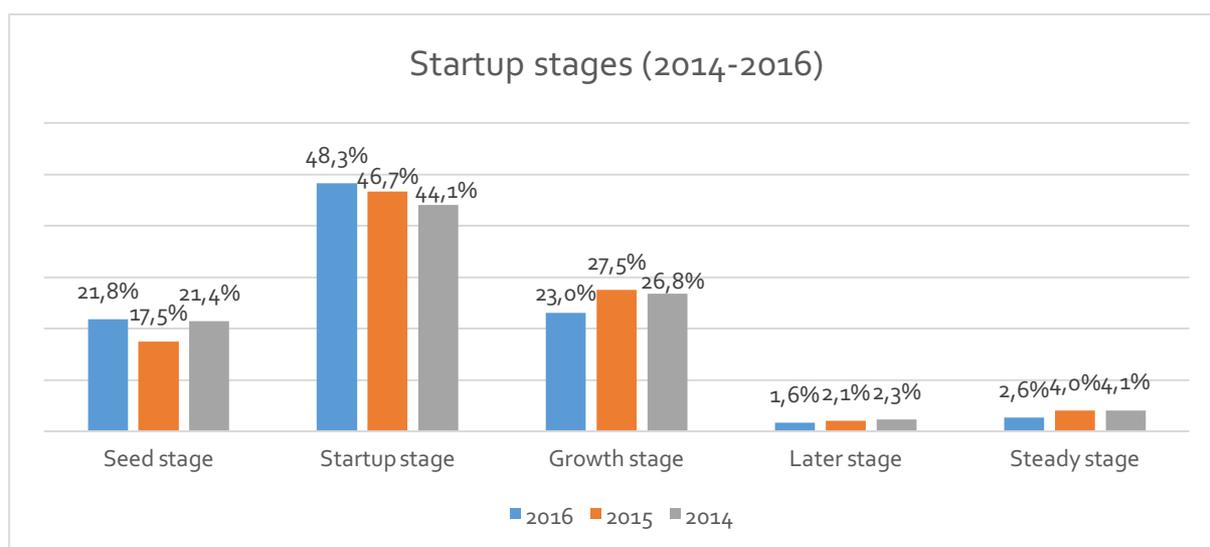
The country-level study of the German startup ecosystem as a part of the European startup landscape brought about a wide range of insights with the main findings being as follows:

- The German startup ecosystem became broader and an additional regional hot spot (Hannover/Oldenburg) was identified. The regional hot spots are now: Berlin (17.0%), Hamburg (6.4%), Hannover/Oldenburg (6.9%), Munich (7.0%), Rhine-Ruhr Metropolitan Region (14.1%), and Stuttgart/Karlsruhe (8.9%).
- Founding a business as part of the digital economy has become highly attractive again.
- More than 80% of German startups are planning further internationalisation. The biggest obstacles are differences in legislation and regulation, as well as differences in the tax system.
- International employees: 30% of German startup employees are not German citizens. In Berlin, this number jumps to 42%.
- German startups employ on average 14.4 employees (including their founders).
- Flat hierarchies are dominating: 33.9% of the startups only have one hierarchy level, while 95.3% not have more than three hierarchy levels.
- 70% of the startups cooperate with established companies and are mainly aiming to gain market/customer access, reputation, and expertise.
- Optimistic view: nine out of ten founders evaluate their current business situation as good or satisfactory. Almost three out of four founders are expecting further improvements over the next six months.
- Two out of three startups support social engagement and more than half attach value to sustainably developing their startup.
- German startups have raised over €1.1 billion in external capital and plan to raise an additional €1.3 billion in external capital over the next 12 months.

Participating Startups

- The majority of startups (75.0%) were founded as independent ventures followed by spin-offs from universities (12.5%) and spin-offs from existing companies (8.8%).
- Flat hierarchies are dominating: 33.9% of the startups only have one hierarchy level and 95.3% do not have more than three hierarchical levels.

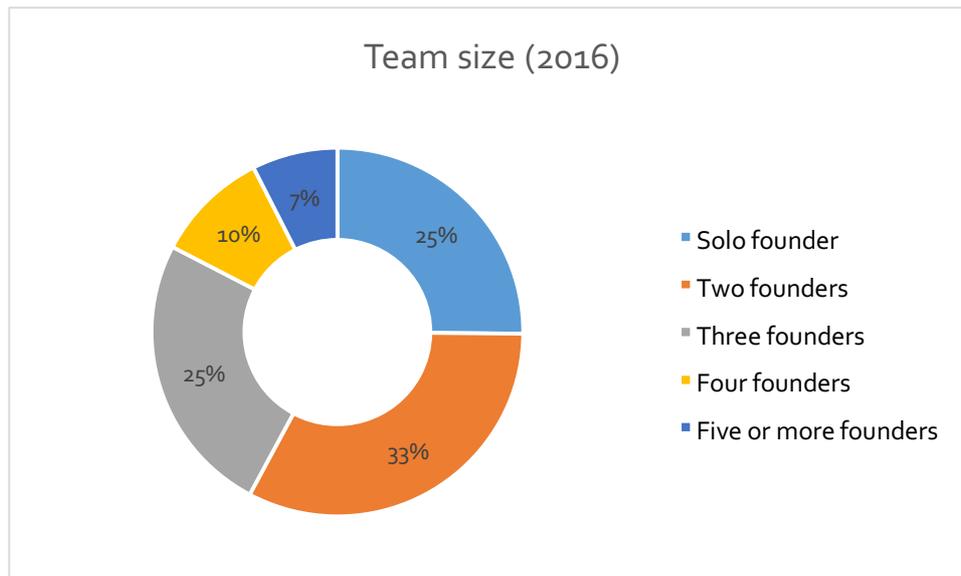
- The average age of this year’s startups was 2.5 years with 31.8% being in their first year, 20.8% in their second year, 16.9% being in their third year, and 11.9% being in their fourth year.
- 21.8% of all startups were still in the seed stage and almost half of the startups (48.3%) were in the startup stage. 23.0% reached the growth stage. Only 1.6% were in the later stage and 2.6% in the steady stage.



- When separating between customers (through whom revenue is generated) and users (who use the product/service), German startups are also likely to generate revenue with B2B customers (65.3%) rather than B2C customers. The addressed users, however, consisted of 50.6% (mainly) B2B users and 26.6 % (mainly) B2C users. 22.8% of the startups address B2B and B2C users on equal terms.

Founders / Entrepreneurs

- This year’s participants were on average 36.3 years old and founders were on average 27.3 years old when they first founded a business. Male founders (26.8 years) are younger than female founders (31.0 years) when first founding a business.
- The share of male founders is 86.1% and most startups (74.9%) were founded in teams with an average team size of 2.5 persons. Most teams consist of one, two, or three founders as seen below.



- Almost every tenth founder (8.0%) comes from outside Germany: 3.8% come from another EU country and 4.2% come from outside the EU.
- Half of all founders (49.2%) have previously founded at least one venture, whereof 26.8% founded one previous venture and 22.3% founded two or more ventures.
- When asked about what they would do in case of failure of the current business, only one out of four founders (24.4%) would work as an employee and the majority of 61.0% would try to start another startup.
- With regard to their entrepreneurial self-image, two thirds of all founders (66.2%) support social engagement and more than half of them (57.4%) place value on economically sustainable development of their startup. Furthermore, 94.4% said that they feel (highly) responsible for their employees and 86.2% said that they work hard and demand the same effort from their employees.

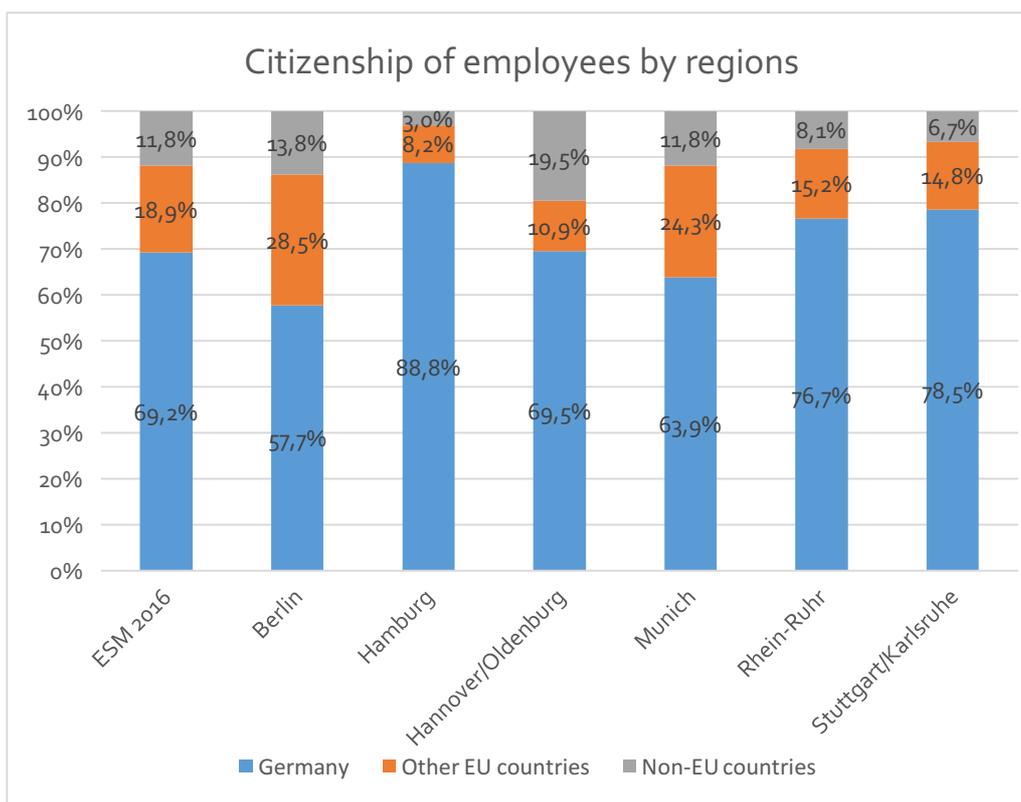
Economics / Relevant sectors / Financial Situation and Business Climate

- With regard to the sectors the startups are operating in, it becomes evident that the digital economy is again a major driver for entrepreneurial activities. Overall, the most important industries for German startups were: IT/software development (15.0%), software as a service (10.2%), industrial technology/hardware production (8.9%), e-commerce (8.7%) and consumer mobile/web applications (6.0%).
- Every fifth startup did not yet generate any revenue, but every tenth startup already generated more than €1 million in revenue.

- The dominating sources of startup financing are own savings (84.1%) and family and friends (30.2%) followed by governmental subsidies (35.5%), business angels (22.6%) and venture capital (18.8%). Every fifth startup (21.1%) financed itself exclusively through the founders' own savings.
- German startups have raised over €1.1 billion in external capital and plan to raise an additional €1.3 billion in external capital over the next 12 months. Berlin still had the highest share of venture capital financed startups (31.2%).
- The share of international venture capital investors increased by 6.8 percentage points (to 30.2%).
- German startups draw an optimistic picture of their current and future business situation. Nine out of ten startups rated their current business situation as satisfying (46.6%) or good (42.7%) and 72.9% expect their future business situation to be even more favourable.

Human Resources / Jobs / Employees

- German startups employ on average 11.9 employees (14.4 including their founders). The startups with the most employees come from Berlin (28.1 employees) and Munich (31.1 employees).
- Startups already create jobs in their early developmental stages: 4.9 jobs created in the seed stage and 8.2 jobs created in the startup stage. However, startups in the growth stage (26.5 jobs created) and later stage (154.8 jobs created) are able to create even more jobs.
- International employees: 30.7% of all startup employees in Germany come from another EU or Non-EU country. In Berlin this share is even higher at 42.3%.



- Although the planned recruitment became a bit more conservative compared to the previous year, German startups still plan to recruit 6.6 new employees on average, which makes a total of 5,600 new jobs in the next 12 months.

Political and legal environment

- Only 5.5% of the startups rate the politicians understanding of the concerns of startups as good or very good. In contrast, half of all participants (51.0%) rate it as bad or very bad.
- Participants rated their experiences with national (43.9%) and European (55.2%) institutions rather neutral. However, they indicated that European institutions are a bit more interested in supporting startups than the national institutions are.
- The top three expectations about politics were: reduction of regulatory and administrative burden (20.3%), tax reductions/relief (13.5%), and support with raising capital (13.5%).

Cultural environment

- With regard to the educational system, the promoting and communicating entrepreneurial thinking/acting was rated better in universities than in schools. The overall evaluation, however, still leaves room for improvement.
- The four biggest challenges for German startups were marketing/customer acquisition (20.2%), product development (18.2%), growth (15.5%), and raising capital (12.4%).
- Serial entrepreneurs and culture of failure: More than one out of four (26.7%) have experienced failure with a previous startup but it did not hinder them from founding a new venture.

Conclusion

The startup landscape in Germany is becoming broader year over year and the share of both female as well as international founders and employees increased further. Startups are indeed an important driver of economic growth and social wealth. However, these developments are only the first effects of several support initiatives on the national and European level and more has yet to come into effect.

Furthermore, the ESM 2016 confirms that many entrepreneurs are serial entrepreneurs and failure does not necessarily hinder them from founding a new business. German founders also seem to search a long-term perspective for their startups. This year's study also revealed that startups work with flat hierarchies and allow their employees high degrees of autonomy, which appears to help deliver considerable amounts of market innovations.

While we can observe a substantial amount of startup financing especially in the seed stage, higher rounds (B and C rounds) and IPOs are still rare. These results may point at the need for more favourable boundary conditions for large investments and/or an additional stock exchange segment for startups.

Further improvements may also be the reduction of regulatory and administrative burden as well as promoting a European level playing field in terms in order to offer an attractive Single Market for the startups' growth aspirations.