

European Startup Monitor – Country Report Portugal

Introduction

Throughout Europe, Startup ecosystems have become a serious and inspiring movement to fight back unemployment, stimulate the local economy, and above all, foster innovation. Portugal is no exception and entrepreneurial spirit is being gradually embraced, as the startup culture is no longer a mere trend, but a statement that came to stay and proliferate.

The following report intends to analyse how the Portuguese ecosystem is growing, in which conditions and parameters, how is it expected to be in the foreseeable future and what the patterns observed amongst Portuguese startups are. This research is also useful when anticipating future scenarios related to the theme and foresighting consequences in the market. Analysis and conclusions are the result of the survey analysis taken by 116 startups geographically distributed across Portugal, from several business areas and different development stages. Although the sample is limited, it is diverse and contemplates diversity while being representative. The present report analyses the survey's answers and contributes to the realistic description of the Portuguese situation. With this analysis, it is possible to portray a typical Portuguese startup along with the main Portuguese ecosystems.

Main Findings

- Portugal's main ecosystem hub is Lisbon where 32,8% of the companies derive from. The second main city is Braga, and the third being Oporto – which is unexpected since it is the second biggest and dynamic city in the country. Portuguese startups are clustering over the west side of the country (seashore), aligned with the population concentration.
- The most common business category is IT and software development (19,8%) following the established European and North American trend.
- The predominant gender of the startup community is male (79,3%) and the most common ages of those who establish their business are 35 (7,4%) and 40 years old (6,5%). Only 5,2% of the individuals are younger than 26 years.
- The average startups surveyed have started their business one year ago (30,2%), and understandably most of them are still in early development stages.

- Internationalisation is not an aspiration to most of the companies within the next 12 months (77,6%), and such a number is justified with the most common development stage of the startups surveyed; 55,2% are still in an early stage and making their first revenues.
- Since most of the companies are in the early stages of development, they are now starting to reach their initial clients, and thus, the most common range of revenue received on the last fiscal year is between 1€ and 25.000€ (51,72%). Nevertheless, only 6% have not received revenue yet.
- Support from European institutions is considered to be positive and startups in Portugal have the perception that opportunities will be granted and that they can rely on European institutions (24,1%), only 1,7% have a negative opinion.
- In case of failure, 25% of the startup founders would found another startup, proving that the concept of entrepreneurship and job creation is well established in Portugal. Still, only 1,7% would even consider to become involved as a business angel or investor.

Founders / entrepreneurs

The most common ages of founders are 35 and 40 years old, with 31,2% of the founders having their first startup foundation experience, and 17,2% founding more than one startup before their current business. Although only 5,2% of the founders are younger than 26 years old, within the founders with previous startup foundation experience, 27,8% were younger than 26 by the time of their first experience.

The usual startup founder in Portugal is a male (79,3%), Portuguese citizen (71,9%) and tends to have a partnership with another founder (33,6%). In 34,5% of the startups, two founders are male.

Women are under-represented in Portuguese startups (20%). When women are the founders, they tend to do it by themselves (28,7%). If Women have a low representation in a startup foundation, the same cannot be affirmed for CEO's, with 25% of the companies surveyed having one women as a CEO.

Portuguese startup founders in a scale of happiness from 1 to 10 consider themselves being happy since the most common score was 8 (18,8%) and 61,5% of them consider that their business situation will be more favorable within the next 6 months.

Regions

Although the main hub is Lisbon (32,8%), it is clear that there is a tendency for the localization of startups at the west side of the country where industry is more developed and populated. Population in the west side is younger, has more universities and jobs, which creates more opportunities. Specifically, it is the north west region where most of the startups come from (28,4%). The east side is notorious for having a very residual startup activity while the South

is almost null. There are small hubs that seem to be starting to grow near cities with highly renowned universities such as Braga (11,2%), Coimbra (6%) and Aveiro (5,2%). Though there is a growing tendency at the north west side, it is safe to assure that Lisbon and its metropolitan area is the main region of startup emergence with 47,4% of the surveyed companies.

Digital Industry and Innovation

Majority of the startups surveyed operate in the digital industry and innovation area, (44%) specifically IT and software development (19,8%). This is not a surprise since Portugal is following the North American and European trends for innovation. Another area worth mentioning is the bio-nano-medical technology with 9,5% of the answers. This is a domain area not only with a significant growth worldwide, but also with a great growth rate in Portugal with some success stories. Indeed, this area is the third most common area of business in this survey, next to Industrial technology/production/hardware.

Startups consider their business model rather innovative (74,8%), and 100% consider their product/service at least innovative and even 53,9% consider it very innovative. Technology and process innovation seems to be assured in the future with 86,1% and 87,1% respectively of answers considering it innovative.

Markets & Customers

As mentioned before, 77,6% of startups are not planning to export their business abroad within the next 12 months, with the plausible justification for this being that more than half of the surveyed companies are still in the early stages of development. The most common country market is Portugal (82,7%) and 41% of the startups have more than 100 national clients. Considering the startups that have started internationalisation, 67,8% are operating in other European countries and 27,2% are operating in North America. South America is quiet close to North America with 19,3% of the answers. Middle East, Africa and Australia still have a very residual Portuguese startup activity. Such an internationalisation strategy is reflected on the structure of markets abroad and 23,3% of the startups have more than 20 European markets, 8,7% in North America and 2,3% in South America.

Their main customers are B2B companies, with 27,5% only operating this way. consequently, the most common revenue stream comes from B2B as well.

Jobs & Employees

Portuguese startups have on average 3 employees (11,4%) and do not have more than 5 employees (53,4%). These companies reveal a slight intention to hire at least one intern (12,9%) but more commonly between 1 and 3 interns (32%). When it comes to hiring students 14,7% have one student on their team and 24,7% have between 1 and 3. However, 16,4% are planning to hire students or interns within the next 12 months. When it comes to other employees, it seems that in the next 12 months, Portuguese startups are planning to extend

their teams, with only 0,86% not planning to hire. Startups planning to hire between 1 and 5 employees are 15,7% and the preference goes to specialists instead of generalists (35,2%). This tendency to hire small groups of employees and having small teams, once again, is due to the most common early development stage of the startups surveyed. The great majority of the employees hired are Portuguese and only 0,9% have no Portuguese employees.

Turnover, Financial Situation and Business Climate

Starting a new business is certainly one of the most difficult stages of the whole process. There are plenty of hurdles for entrepreneurs during this stage, one being funding, with several strategies that will be adopted to overcome it. The most popular funding origin is still the use of personal savings (86,8%). Family and friends also play an important role when it comes to financing a new startup, with 17,7% of the surveyed startups called upon. Without appealing to external funding, another strategy quite common in Portugal is using internal funding or operative cash flow (16,2%). Startup incubators and accelerators are increasing their support over new companies, financing 26,5% of the startups surveyed. Venture capitalists and business angels have also started risking and investing on these new companies, with 27,9% of the companies having negotiated with those entities. Hence VCs and BAs are becoming increasingly more present on the Portuguese startup ecosystem. Banks are still an option when it comes to funding new business, since 14,7% receive traditional banking credit. More than half of the startups surveyed have already raised external capital (58,6%) and the most common value is between 1€ and 25 000€ (22,9%). However, within the next 12 months, 25% of the startups are not planning to raise any external capital and 16,8% plan to receive between 1€ and 25 000€. Founders have no expectation in receiving financial support by Portuguese government.

Foreseeing the future, 58,7% of entrepreneurs' plan to exit their startup after 10 years of foundation, 24,4% intend to render their business to public domain (IPO) and only 21,4% have a pessimist forethought to close it down (11,8%). Fortunately, 93,7% of the founders are at least satisfied with their business situation, and 95,4% think that in 6 months they will be at least consistent.

Conclusion

The ESM research in Portugal shows that the Portuguese startup ecosystem is healthy and projects it to be better in the near future. Portuguese startups are generating revenues and jobs, while the culture is proliferating among young people which suggests that it is becoming an important driver for a thriving economy.

Lisbon is now an important hub and is considered to be an emergent startup ecosystem across Europe. Even so, other city regions are beginning to approach the level of the capital's ecosystem and conditions are being created there to evolve. Although there are some city regions that are becoming relevant ecosystems while trying to keep up with Lisbon, the east side of the country still has a residual startup activity.

The ecosystem is quite diverse in terms of business areas despite the digital industry appearing to be the one with a higher growth margin, following worldwide trends. Even so,

there are still some hurdles and malfunctions, the notorious one being the role of women in this ecosystem as it is still too small in comparison to men.

Founders are resorting to traditional funding mechanisms such as VC and BA. There seems to be a lack of belief on government's support for young entrepreneurs and early stage companies when it comes to financing - one of the biggest struggles for Portuguese startups – since they do not see government action as supportive.

To sum up, the most important conclusion to be taken on this report is that startup entities believe that they are on the right path to achieve their goals. Startups in mature stages are generally generating profit and business optimism reigns over the community.

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