

## European Startup Monitor – Country Report Cyprus 2016

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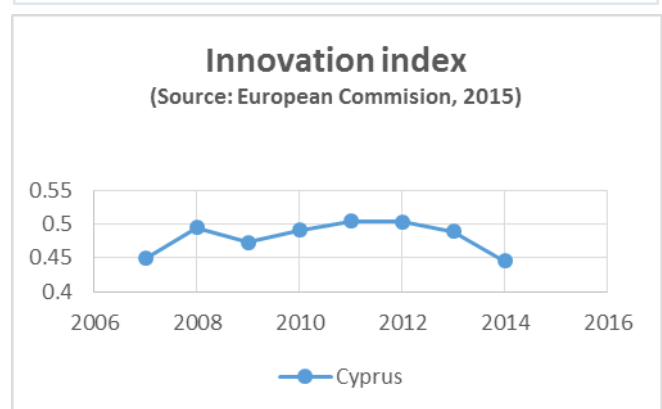
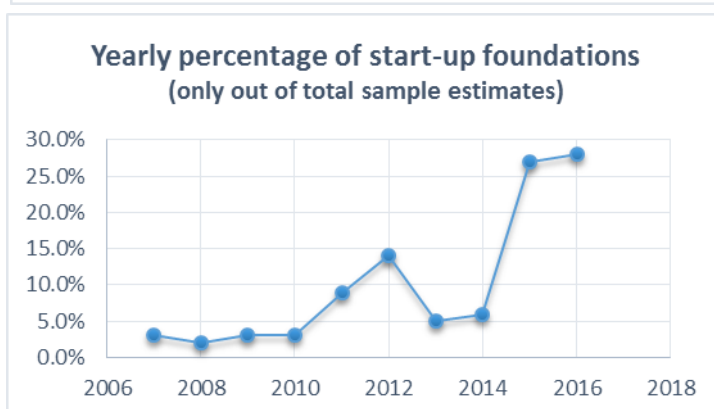
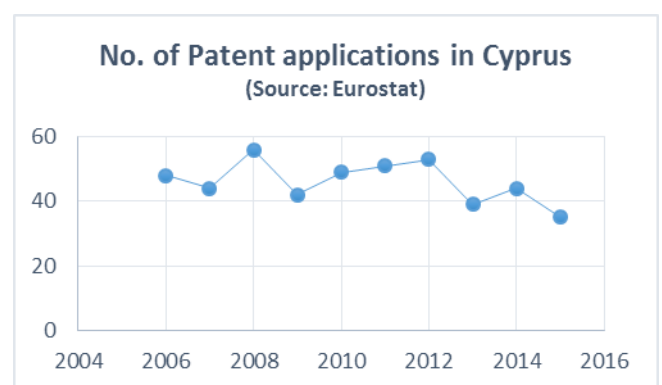
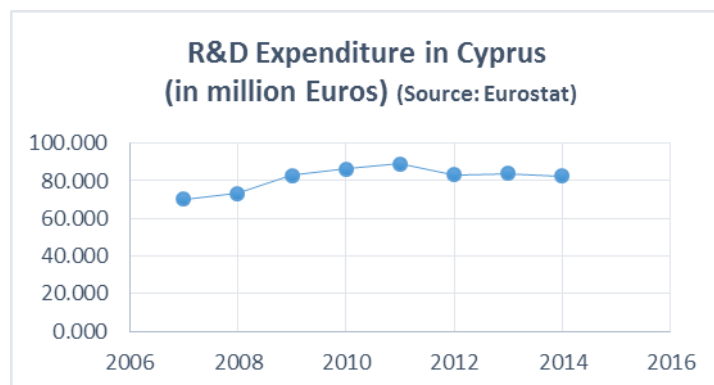
In this report we examine the current situation of start-ups in Cyprus as well as the level of entrepreneurship and innovation development through the analysis of survey data collected from start-up founders and CEOs from Cyprus. We present the main summary results which includes the main characteristics of the responders and their start-ups (e.g., location, entrepreneurial activities, financial and managerial aspects). Their views regarding the main market challenges that they are facing as well as their evaluation of the current market dynamics will also be presented.

### Main Findings of the European Start-up Monitor 2016 for Cyprus in Brief

- 80% of start-ups are located in Nicosia and have an average age of 2.3 years (i.e., 28% were founded in 2016 and 27% in 2015); 41% are in the start-up stage and 28% in the growth stage; 17% are an online/ecommerce service, 18% a software or hardware technology and 12% a consumer or web application.
- 33% of start-ups had revenues between € 1 and € 25,000; 6% had revenues between € 5 and € 10 million. 88% responded positively on raising capital from private sources (i.e., savings of founders or contributions from family and friends) while 24% responded positively on raising capital through Business Angels.
- 74% of entrepreneurs would found another start-up if their present start-up failed; 83% of responders indicated that there was a low probability for their current start-up to close down. On average each start-up has 3 founders and are planning to hire 4 new employees, on average, during the next 12 months.

### Introduction

Innovation and the development of an international start-up ecosystem can contribute to sustainable economic growth and competitiveness. In Cyprus, the entrepreneurial spirit of Cypriots is reflected in the large number of self-started companies (e.g., SMEs) as well as the growing start-up ecosystem. In particular, the dynamism of this ecosystem is evidenced by the increasing number of start-ups founded in recent years across various sectors. As far as innovation is concerned, according to the European Innovation Score card 2015 report, Cyprus is considered to be a moderate innovator. However, the success of Cypriot Universities and SMEs in securing European R&D grants coupled with Cypriot Government initiatives to encourage investment in innovation and the various tax incentives offered to newly established start-ups, are positive steps towards creating a more innovative and competitive market. Despite a small sample of 66 startups, this survey of Cypriot start-ups provides us useful insights to assess the current situation of the startup ecosystem in Cyprus. Moreover, it helps us identify the main challenges start-ups face and the possible policy options necessary to boost the development of the start-up ecosystem and promote innovation among firms and centres of knowledge sharing.



## Participating Start-ups

The summary results on survey-participating start-ups reveal a widely diversified start-up ecosystem in Cyprus, which can generate great opportunities for collaboration and synergies that can build both economic and societal value. The main start-up hub is Nicosia, the capital of the country, where 80% of the start-ups are located. Limassol, the second largest city on the island has a share of 14%. An industry analysis reveals that the most popular categories are (a) industrial technology/hardware and (b) consumer mobile/web application categories, with 12% share each; (c) software as a service and (d) the IT/software Development categories with 9% each; as well as other categories (such as research and innovation services, consulting services etc.) (see, Figure 2). Moreover, considering the development stage of the start-ups, majority of them are in the start-up stage i.e., 41%; 73% are an independent venture foundation and 16% a spin-off from existing company, 28% are in the growth stage; 88% are an independent venture foundation and 5% a spin-off from existing company while 23% of the start-ups are only being in the seed stage (see, Figure 2 and Figure 3).

## Founders / entrepreneurs

The entrepreneurs participating in the survey are mainly start-up founders (i.e., 86%) and the overall sample participants consist mainly of Cypriot Nationalities (71%) and other EU nationalities (22%) or non-EU nationalities (7%) (e.g., see Figure 1). The male-female ratios across the age distribution are skewed towards male, with 80% being male and 20% being female with the average age being 36 for male and 31 for female founders. The data indicate the participants' entrepreneurial and start-up tendencies; for example, even though 55% of them have not previously founded a start-up, 30% have already founded either one or two start-ups. Moreover, from questions regarding entrepreneurial self-image, we identify the existence of common traits between the responders. Firstly, the responders gave high scores to arguments such as *"I feel responsible for my employees"*, *"I work hard and this is also what I demand from my employees"*, and *"I support social engagement"*. These show their high level of responsibility towards their employees, the high value they give in leading by example through hard work as well as the importance they assign to social engagement in order to promote their start-up. Furthermore, we observe a positive

correlation between innovation rate evaluation of their start-up<sup>1</sup> (mean=41, s.d.=7) and life satisfaction rate (i.e., mean=7 out of 10, s.d.=1.5), which also indicates the importance given to create innovative start-ups in the Cypriot ecosystem, resulting in overall societal prosperity. Finally, their entrepreneurial perseverance is shown by the high percentage of participants, i.e., 74%, who would found another start-up if their present start-up fails (see Figure 15). More specifically 83% of them are assigning a low probability to the occurrence of this scenario (see Figure 13) and from those who already founded a start-up, 35% are still shareholders in their previous start-up.

### **Economics / Relevant Sectors / Financial Situation and Business Climate**

As far as the macroeconomic environment and business climate are concerned, start-up founders appear to strategically take advantage of the current market situation with further expansion and internationalisation plans. First of all, the surveyed start-ups mainly target Business to Business with some Business to Companies customers (i.e., 30%, see Figure 4). Moreover, 31% of revenue generation comes from B2B (see Figure 4) while across all revenue generation segments on average 60% (s.d.=5.3) comes from the local market and about 36% (s.d.=5.4) from other EU countries. More specifically, the revenue generation during the last financial year is positively skewed towards lower margins in comparison to high margins. , i.e., 33% of start-ups had a revenue between € 1 and € 25,000, 10% between € 250,000 and € 500,000 and a 6% between € 5 million and € 10 million (see Figure 11). Secondly, in regards to the source of capital raised by the start-ups, most popular categories include the use of private capital (i.e., savings of founders, 88% responded positive to this category, or contribution from family and friends, 37% responded positive) as well as capital from Business Angels (i.e., 24% responded positive) as well as through internal financing (see Figure 11). Such external capital is between € 1 and € 25,000 in about 26% of the cases, and only 5% is between € 5 million and € 10 million (see Figure 11). Interestingly however, responders are positive/optimistic regarding the prospect of raising more capital within the next 12 months, e.g., 15% mentioned that they are planning to raise between € 50,000 and € 150,000 (see Figure 12).

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<sup>1</sup> Innovation rate includes the total score of participants on questions on innovation (e.g., business model, technology, processes, and product), novelty and speed.

In regards to internationalisation plans, there is a high preference for Europe (i.e., 92% responded positive) and some for the Middle East (but much less for other locations), with main interest in export of products and services as well as potential partnerships with local companies (see Figure 5). The main challenges and barriers to entry in such markets identified are those related to differences in legislation and regulations as well as the adaptability to local customers' preferences. Moreover, according to the entrepreneurs, they assign a high level of strategy importance to product development (i.e., 46%) and strengthening employee motivation (i.e., 43%) while popular cooperation activities include marketing and use of co-working spaces with other start-ups, R&D and marketing activities with other established companies (see Figure 7).

### **Human Resources / Jobs / Employees**

The human resources for start-ups mainly depend on the start-up size in relation to revenue generation, stage of development as well as the level of capital raised. The surveyed start-ups have on average of 2 CEOs and the majority of them have between 1 to 10 employees (including founders or CEOs) (i.e., mean=8, s.d=12) while larger start-ups have between 20 and 60 employees. In regards to employment creation, the number of interns and students employed by these start-ups is also quite low (i.e., between 1 and 2 individuals) while a comparison between the number of employees hired during the past year and the number of employees to hire during the next year shows similar trends, i.e. on average 4 people in both cases with a higher average for large start-ups.

Additionally, regarding the management structure of the surveyed start-ups, about 50% have only 1 hierarchy level (while about 33% have 2 levels and 17% 3 levels) indicating their flat organizational structure which along with a flexible working environment and appropriate on-job training increases agility and quick decision making. In particular, 57% of the responders fully agree with having high trust towards their team members' knowledge expertise and 58% agree with having a leadership team with clearly defined responsibilities.

### **Political and legal environment**

The political and legal environment in Cyprus is encouraging the establishment of new start-ups. In particular, the availability of entrepreneurship funding (e.g., through flexible

loan schemes with low interest rates and extended repayment periods) allows to focus on value added innovative activities; however a better coordination is still needed to overcome challenges. According to the responders of the survey, the main challenges that their start-up is currently facing include product development (19%), growth (19%), sales and gaining customers (16%) as well as raising capital (15%). Moreover, when asked to evaluate the level of competition, 59% said that there is a high threat of new market entry while the same percentage of people agree that there is high speed of innovation in the market. Generally, responders give higher rating scores to governmental support of the start-up ecosystem and to help from national universities in promoting entrepreneurial culture than to traditional companies' willingness to collaborate with start-ups. Finally, in regards to responders' expectations from politics regarding their entrepreneurial activities the most popular answers include the reduction of administrative procedures (bureaucracy), tax reduction/relief and support with raising capital. Generally, the responders rated scores indicate their positive beliefs that our market is rich in profitable opportunities and in terms of product innovation in their focal industry.

## Conclusion

The analysis of the ESM study results for Cyprus provide us with useful insights regarding the current situation of start-ups and entrepreneurial momentum while revealing the potential of Cyprus becoming an entrepreneurial and innovation hub in the area. This achieved through international strategic collaborations while positively leveraging and influencing the growth of its highly-educated human capital. Such potential can be realized through the support of both Universities (i.e., by fostering entrepreneurial thinking) and governmental initiatives which encourage investments in innovation and research and development while taking into consideration the benefits in terms of economic prosperity and societal value creation.

In particular, funding and networking opportunities through Horizon 2020 may give Cypriot start-ups the chance to further evolve by creating the right mix of competitive advantages and strategic partnerships. These, of course, must be supported by appropriate innovation policies which will help start-ups tackle market challenges and support sustainable economic growth. In addition to Horizon 2020, other sources of support for the start-up

ecosystem include platforms such as the Cyprus Enterprise Link (CEL), the Cyprus Business Angels Network (CyBAN), Chrysalis Leap, the IDEA programme (a collaboration between the Bank of Cyprus, the Cyprus International Institute of Management and Deloitte), Start-upGrind Cyprus, the Centre of Entrepreneurship of the University of Cyprus and others.

## References

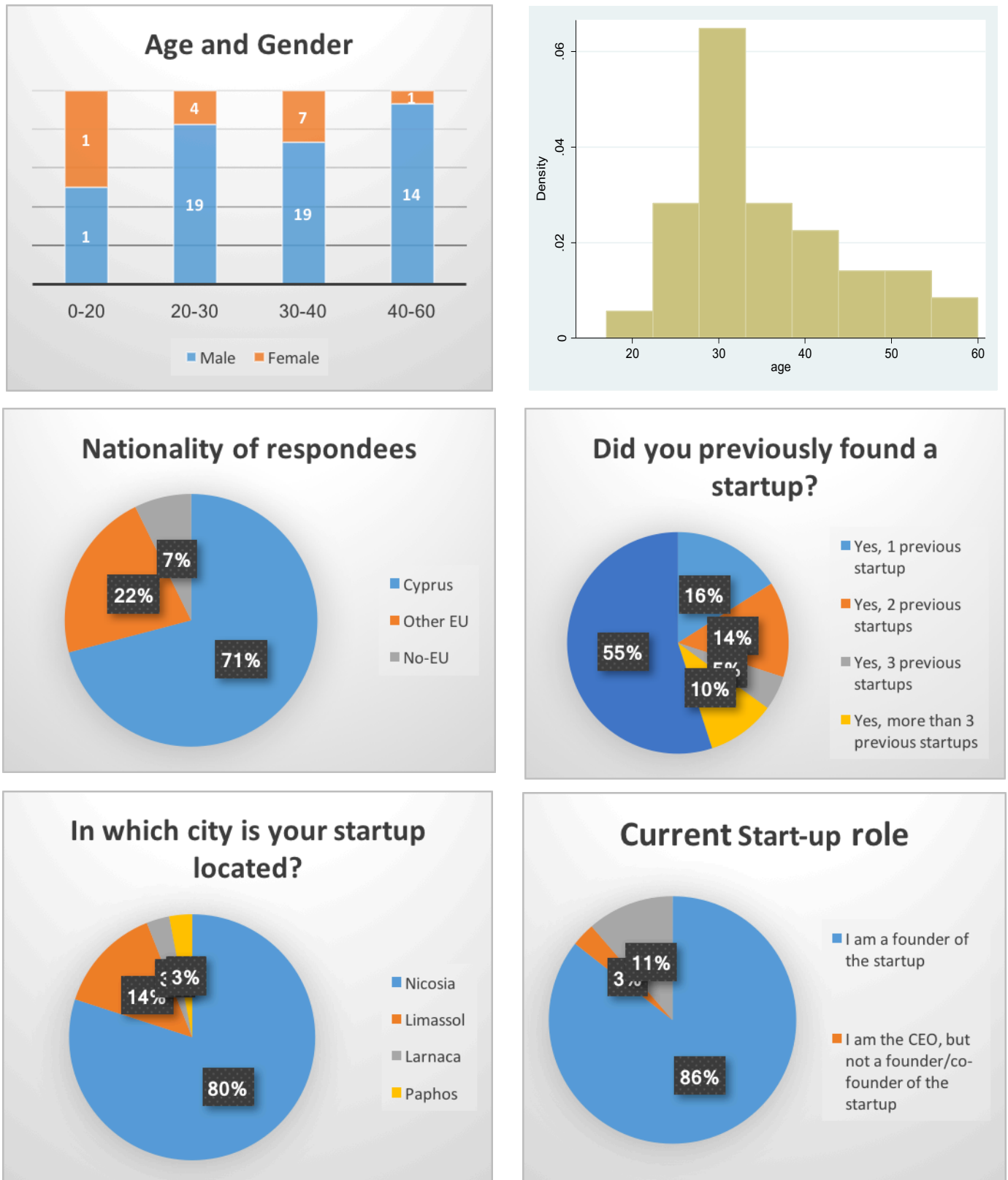
European Commission, (2015). *Innovation Union Scoreboard*.

Ernst & Young, Cyprus (2015). *Innovation and Entrepreneurship Dynamics*.

## APPENDIX – GRAPHICAL REPRESENTATION OF DATA

### 1. START-UP CHARACTERISTICS

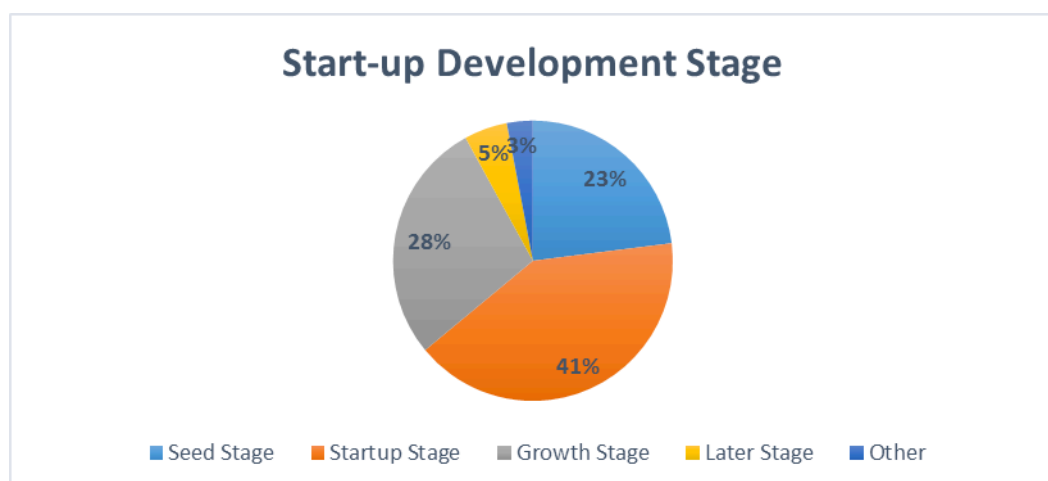
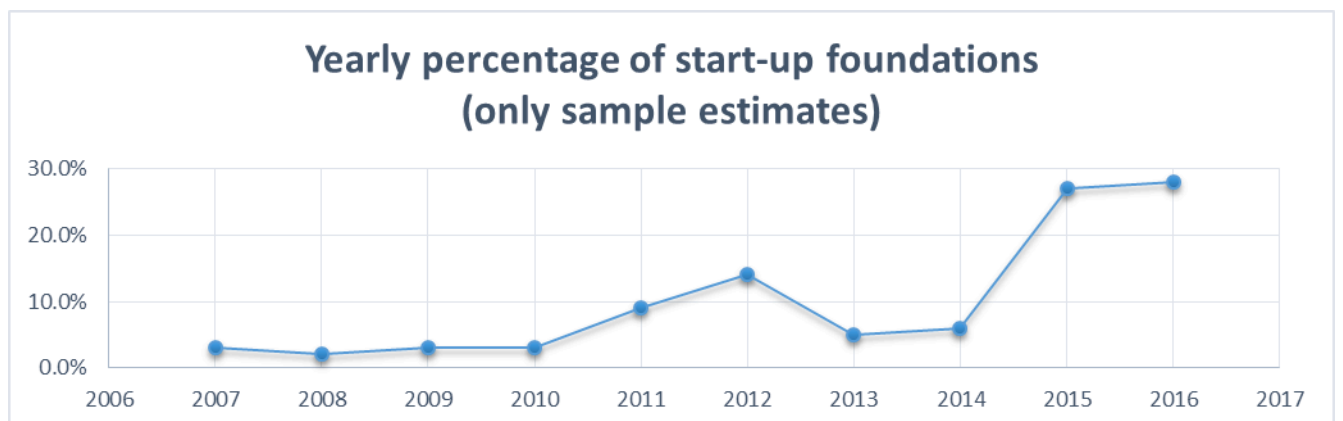
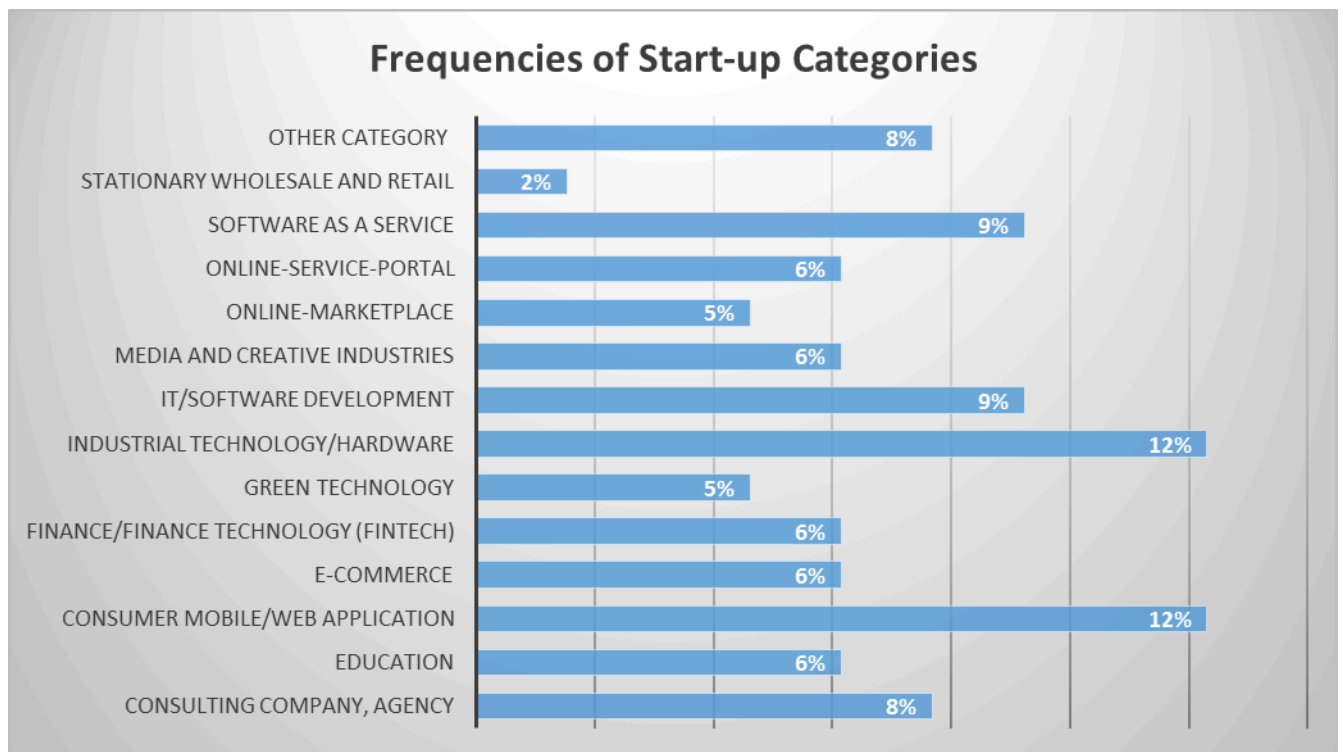
#### (a) Responders characteristics

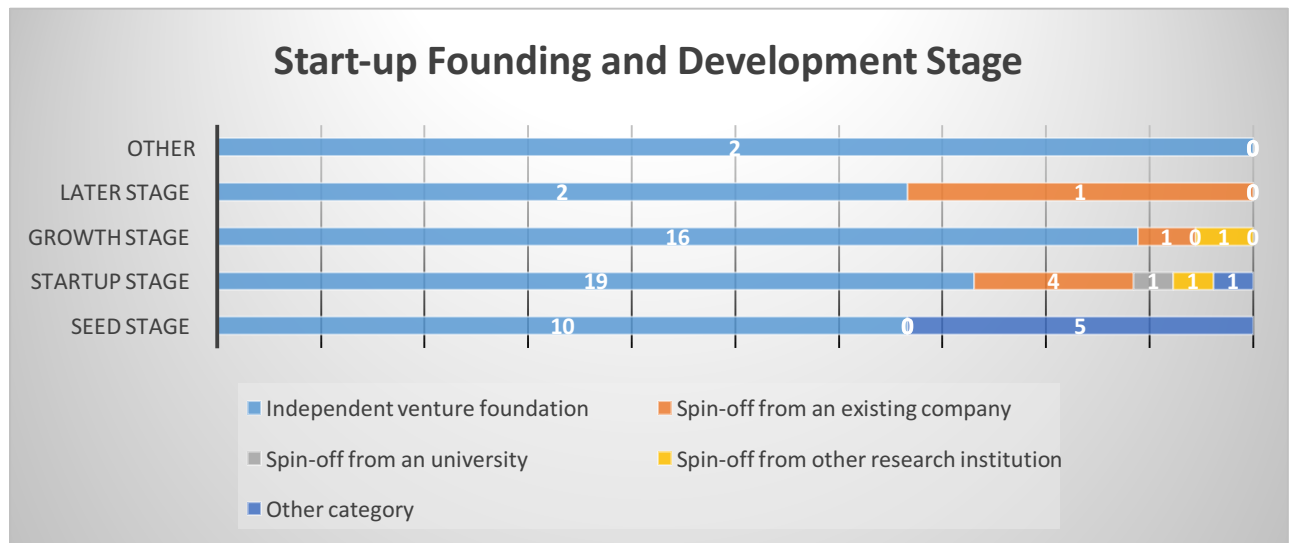


**Figure 1.** Responders' characteristics



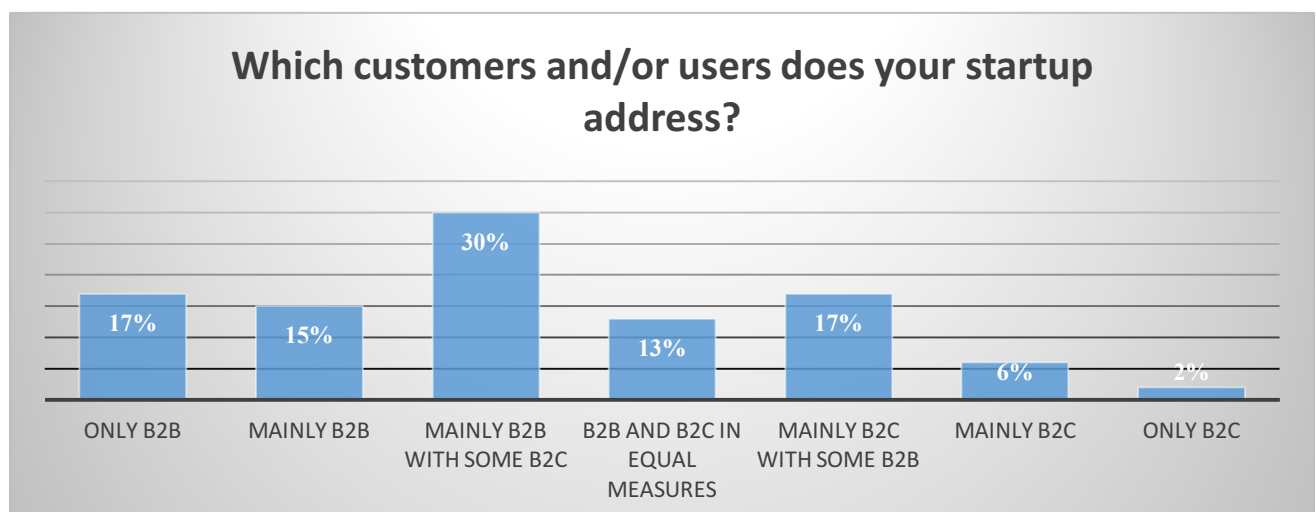
## (b) Start-up characteristics



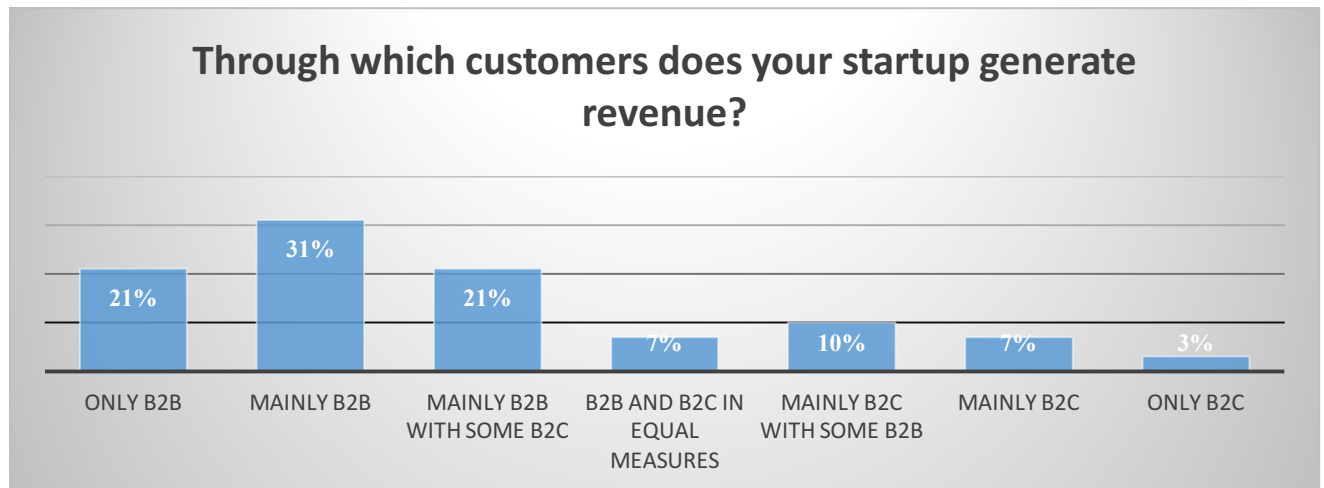


**Figure 3.** Start-up founding and development stage

## 2. CUSTOMERS, MARKET, STRATEGY

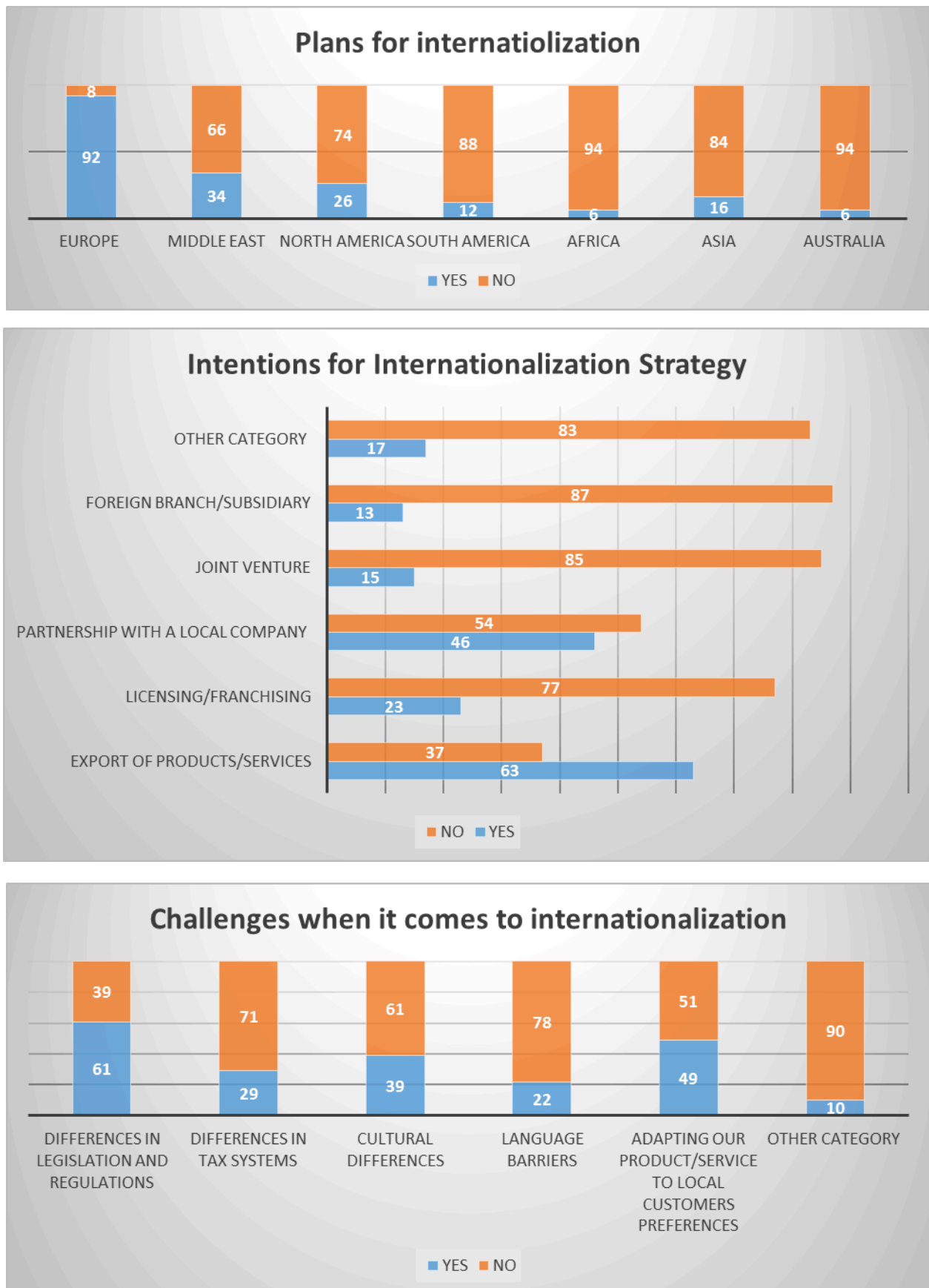


**Figure 2.** Start-up categories, founded year and start-up development stage



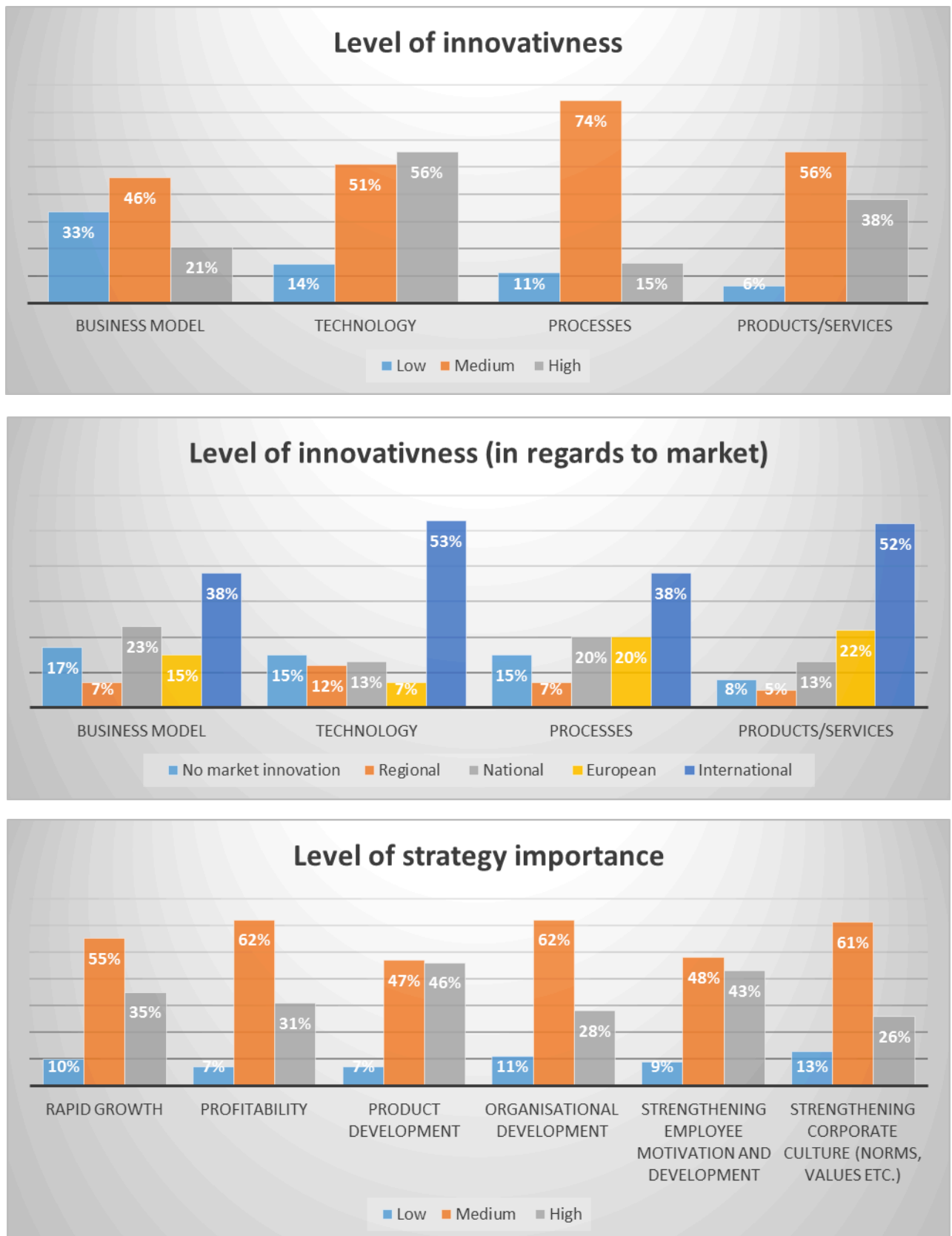
**Figure 4.** Customer segmentation

### (a) Internationalization

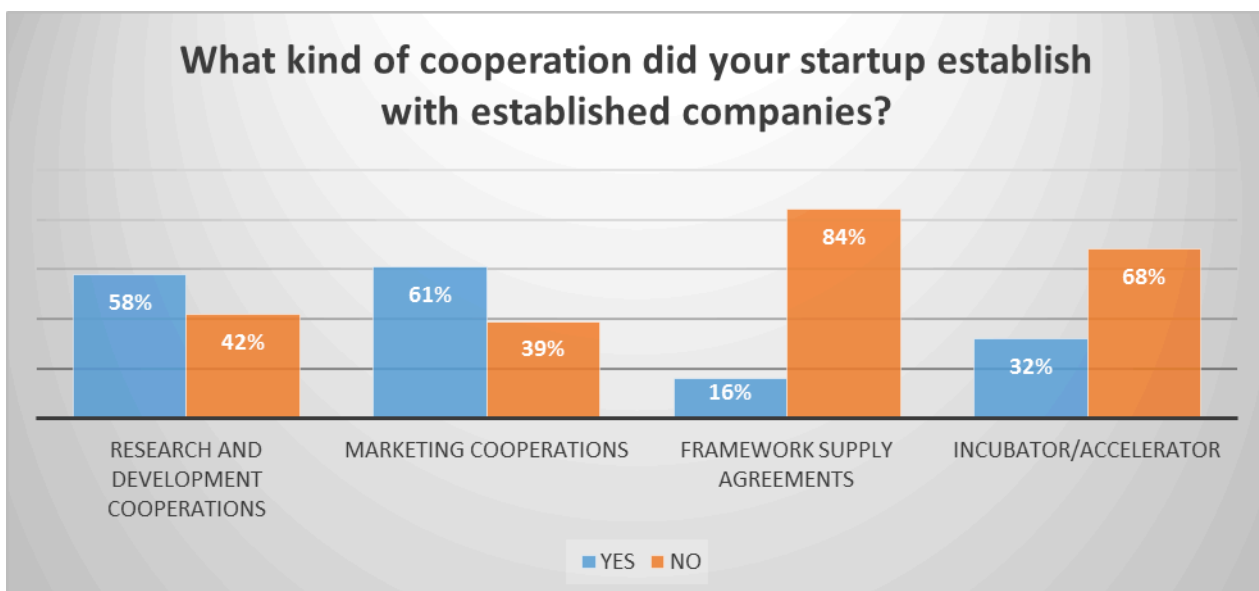
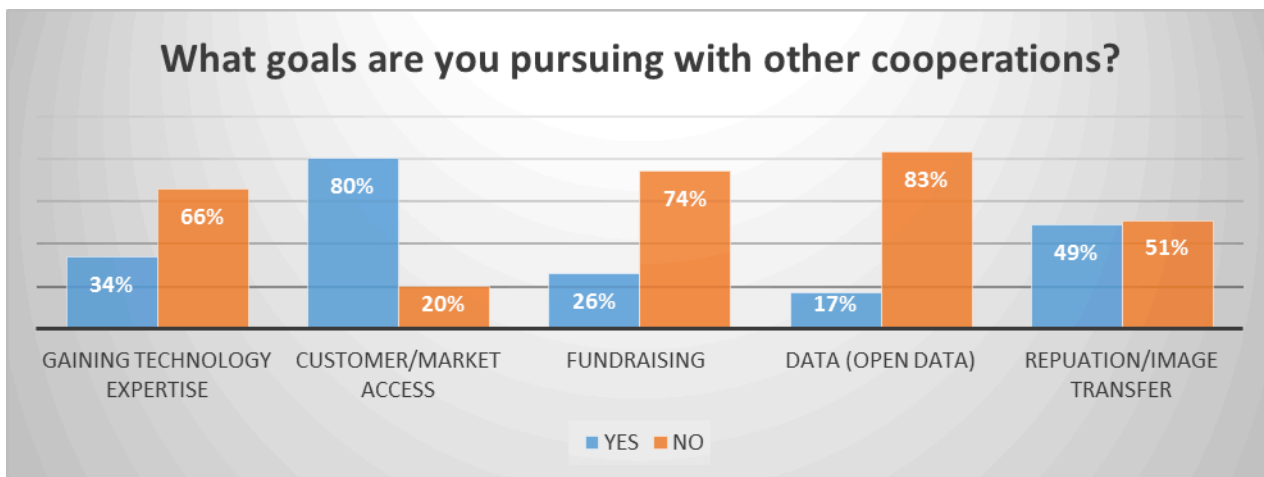
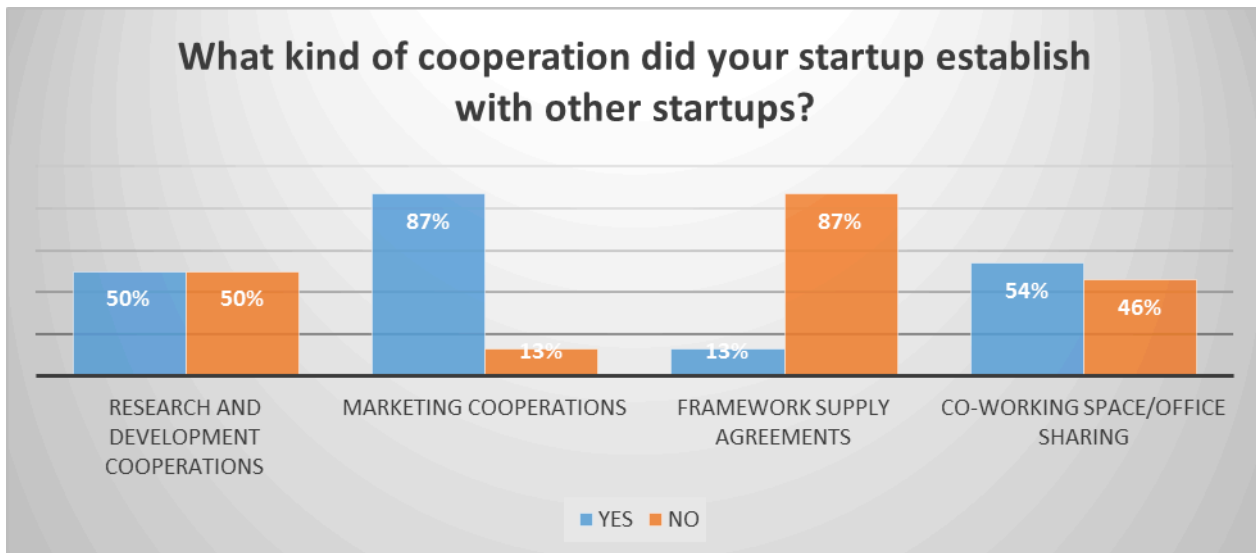


**Figure 5. Aspects of Internationalization**

## (b) Innovation

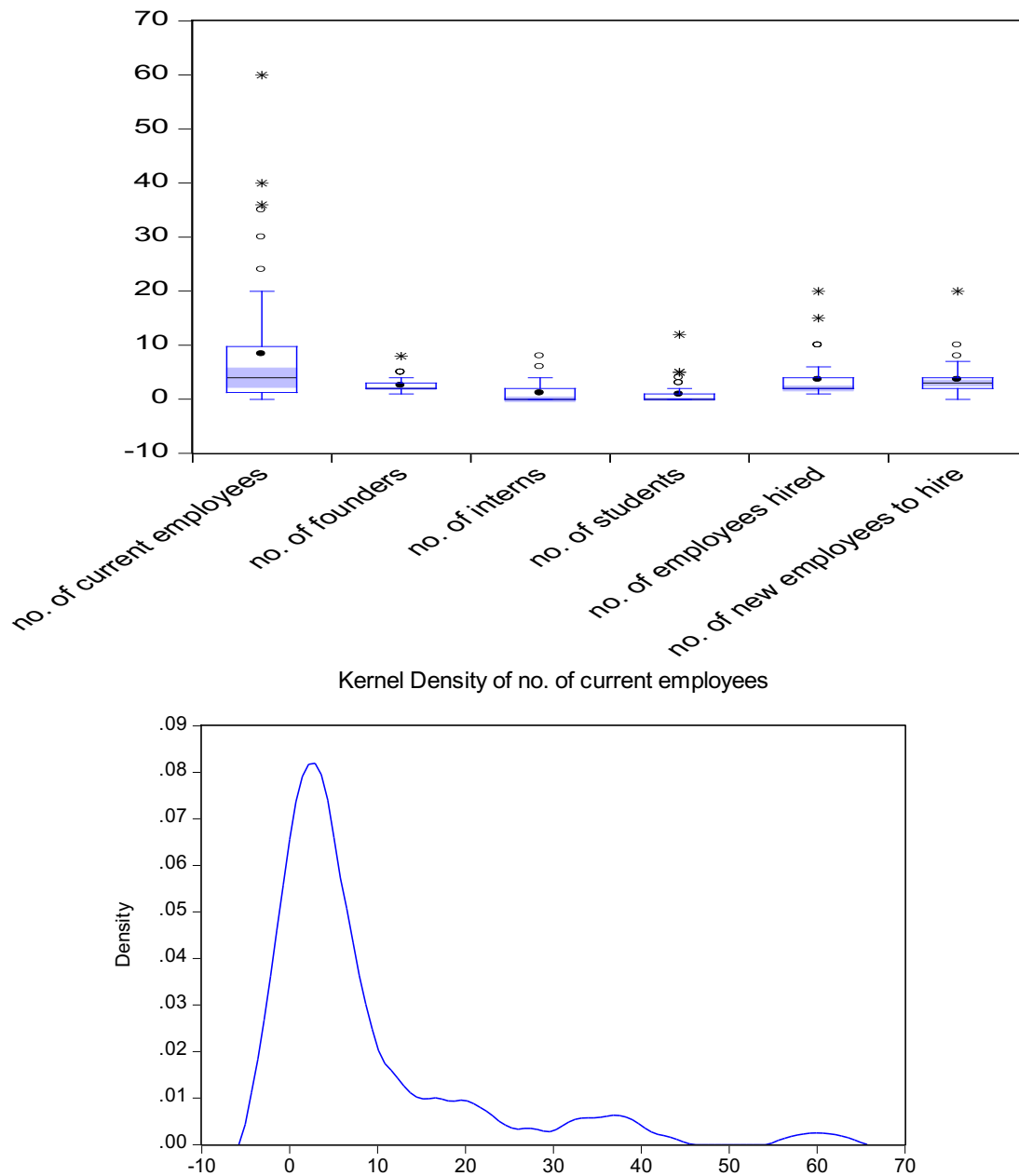


**Figure 6. Innovation and strategy importance**

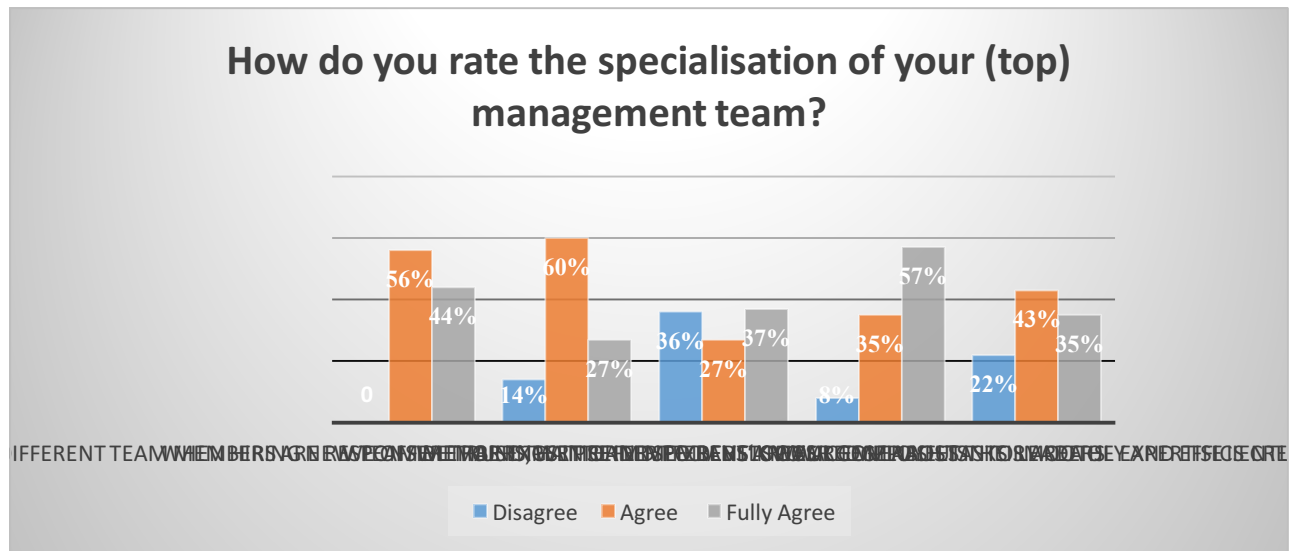


**Figure 7.** Nature of cooperation of start-ups with other business entities

### 3. EMPLOYEES

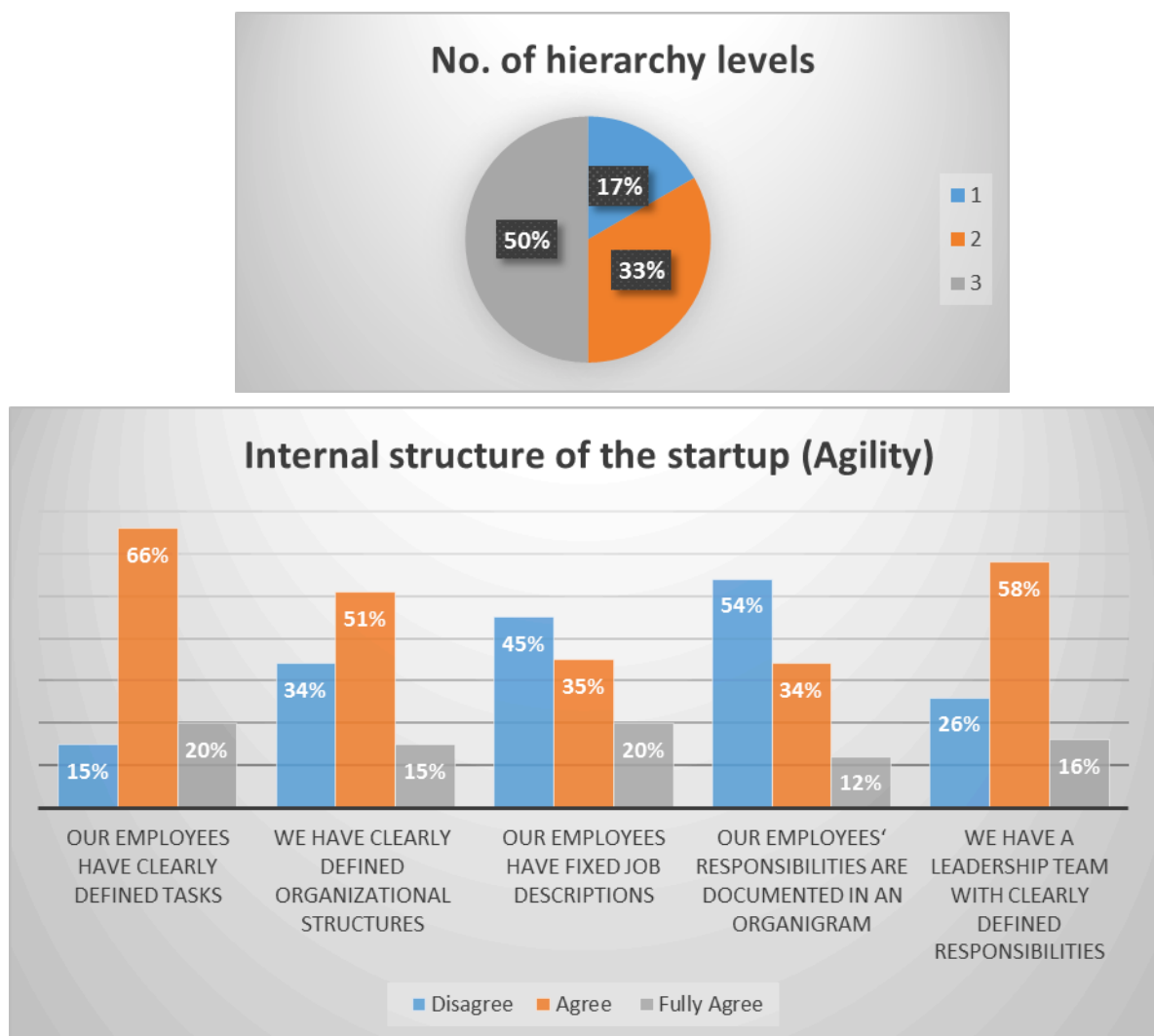


**Figure 8.** Aspects of Employment management



**Figure 9.** Management specialization rating

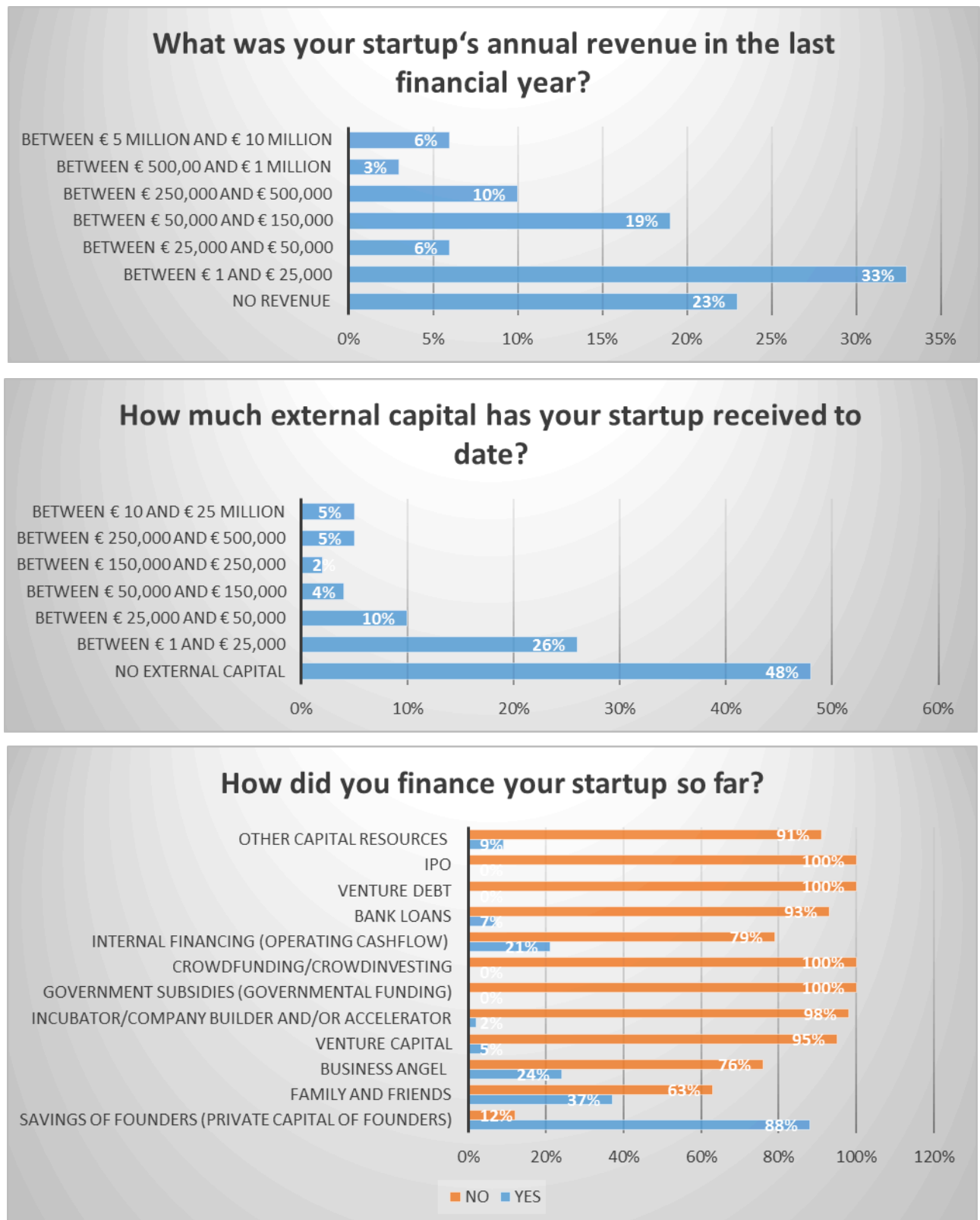
#### 4. START-UP STRUCTURE



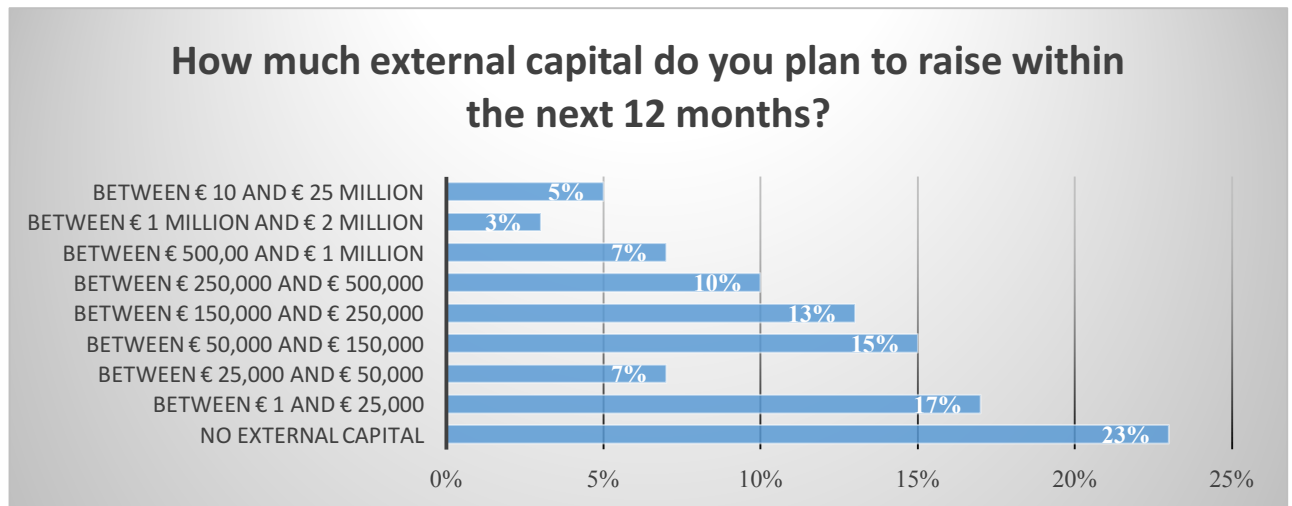
**Figure 10.** Start-up structure



## 5. REVENUE/CAPITAL

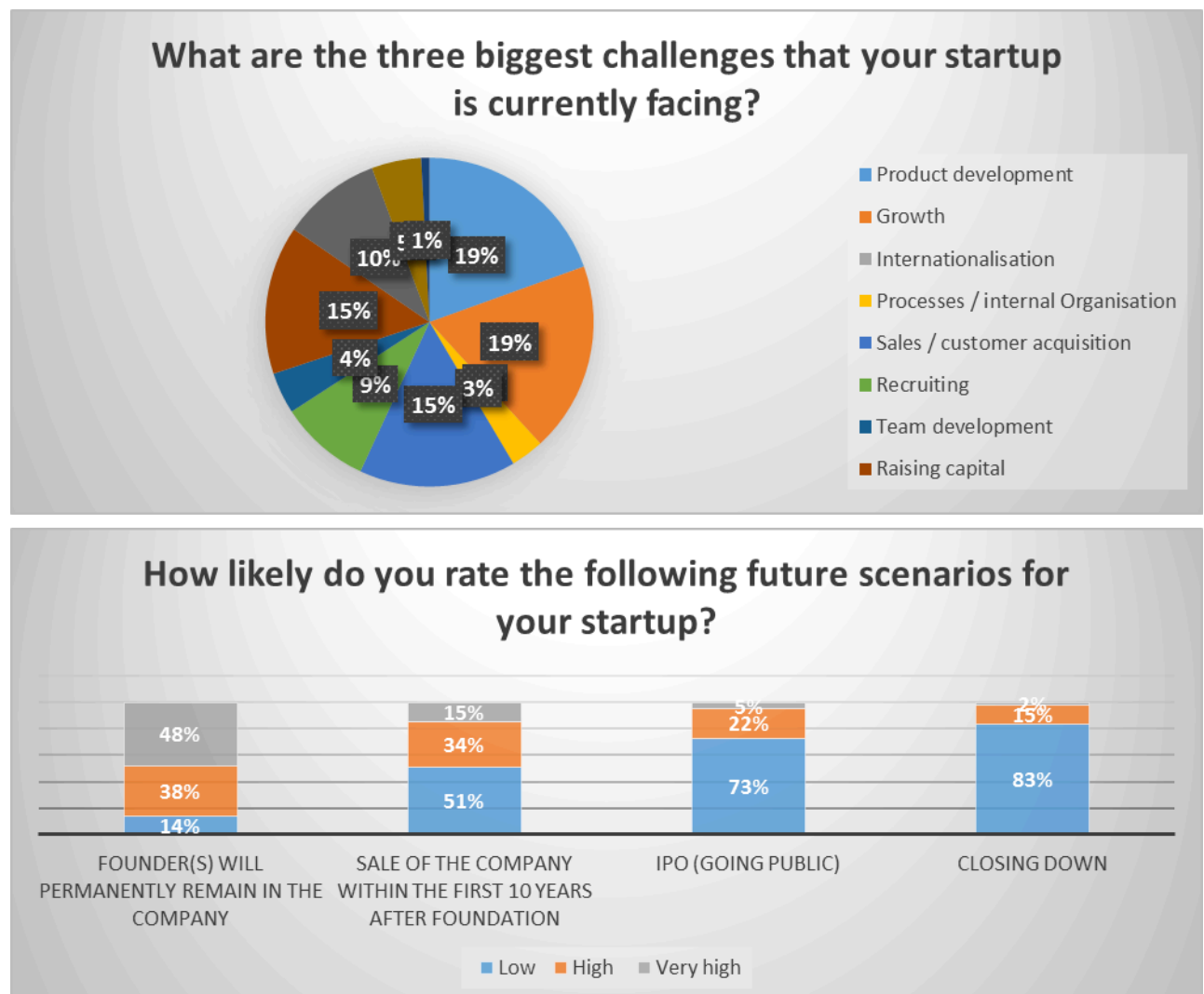


**Figure 11. Revenue and Capital raised**

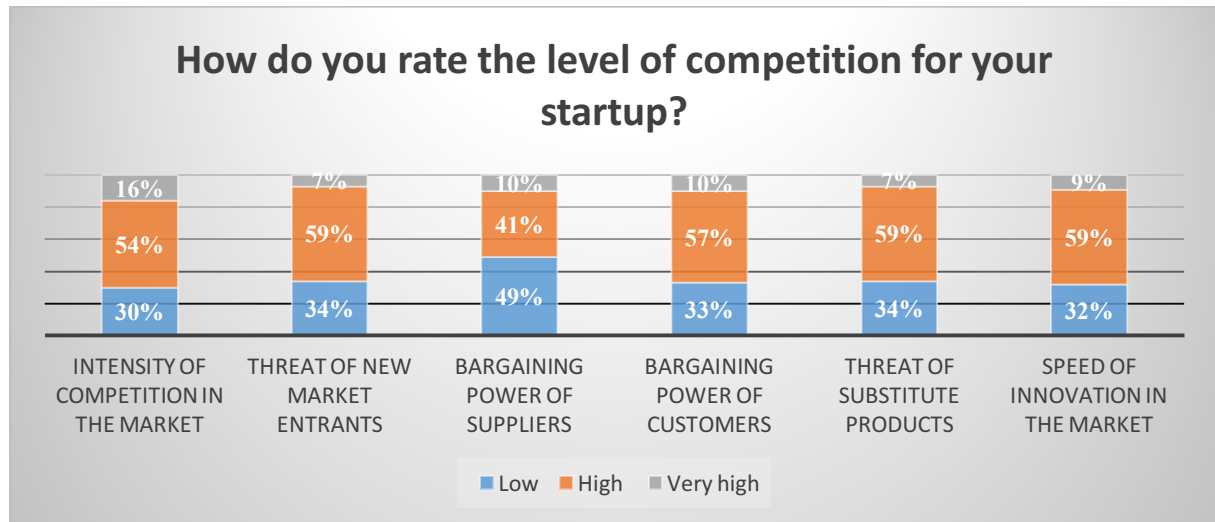


**Figure 12.** Plans for capital increase within the next 12 months

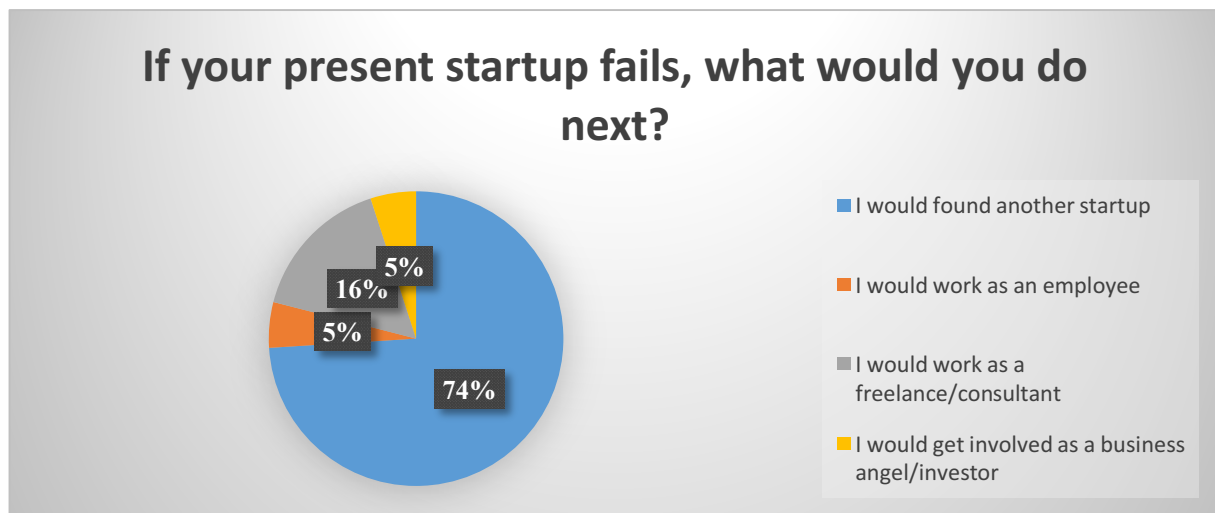
## 6. START-UP DEVELOPMENT AND ENVIRONMENT



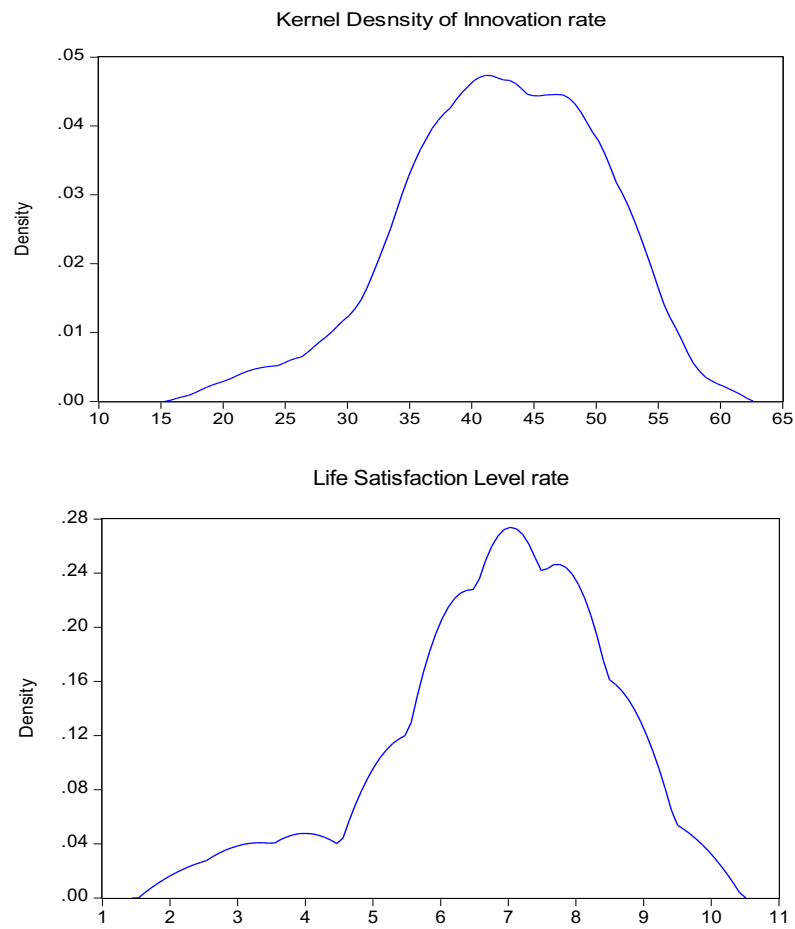
**Figure 13.** Main challenges faced by start-ups



**Figure 14.** Level of market competition



**Figure 15.** Plans in case the start-up fails



**Figure 16.** Kernel density of innovation and life satisfaction rate