Understanding Startup Ecosystems

Eli David,
Ecosystem Consultant for CAREC

CEO, StartupBlink

CAREC
INNOVATION
NETWORK

Members' Workshop

Agenda:

1 Introduction

2 Current trends in Startup Ecosystems

3 Elements of a startup ecosystem

4 Understanding Startup Ecosystem Stakeholders

5 Ecosystem development stages

6 Q & A

Startup Ecosystem Map

CAREC Startup Ecosystem Map:

- Improve regional data flow with 6000+ startup related entities
- Benchmarks and ranks 7 countries and dozens of cities in the region
- Shows ecosystem milestones
- Promotes CAREC Ecosystem to the world
- Used as a research and policy center for CAREC Ecosystems
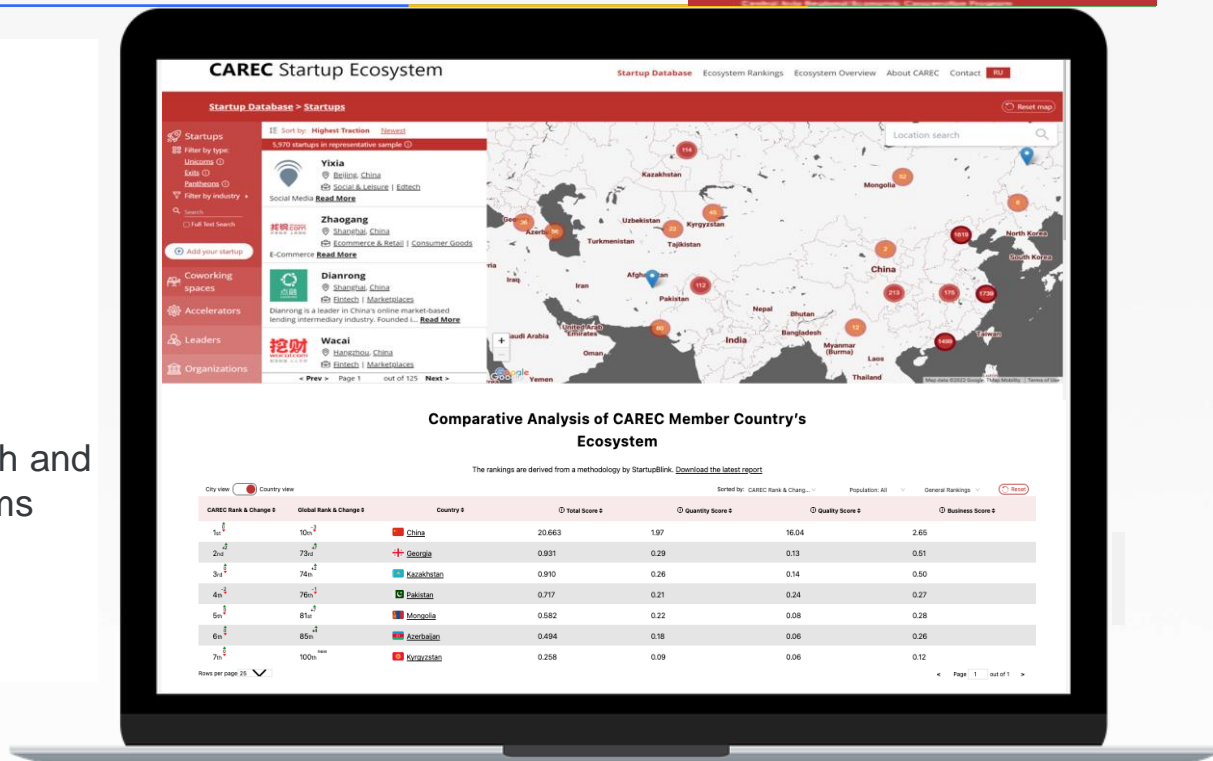
www.startupcarec.org
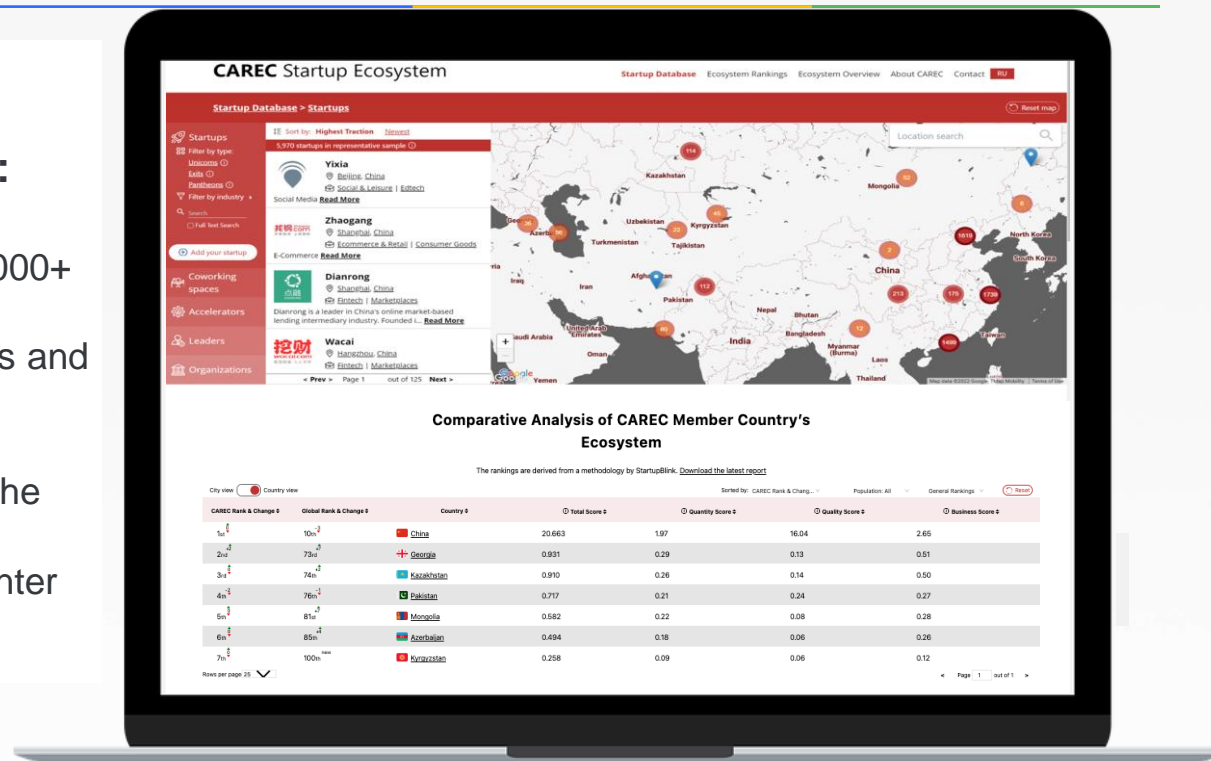
Join the Map

Our cooperation:

- Admin accounts to curate your ecosystem data
- Your logo on the map
- Your direct contribution to research and rankings of your startup ecosystems

eli@startupblink.com

Understanding Startup Ecosystems

The wider economic impact of startup ecosystems

- Highly paid jobs and increased quality of life
- Upgrade of the economy and its sectors
- Attracting Multinational Corporations (MNCs) and large companies
- Increased recaudation: taxing on salaries, capital gains, local taxes

Global Venture Dollar Volume 2012 To 2021
- Angel-Seed
- Early Stage
- Late Stage
- Technology Growth

crunchbase news

Understanding Startup Ecosystems
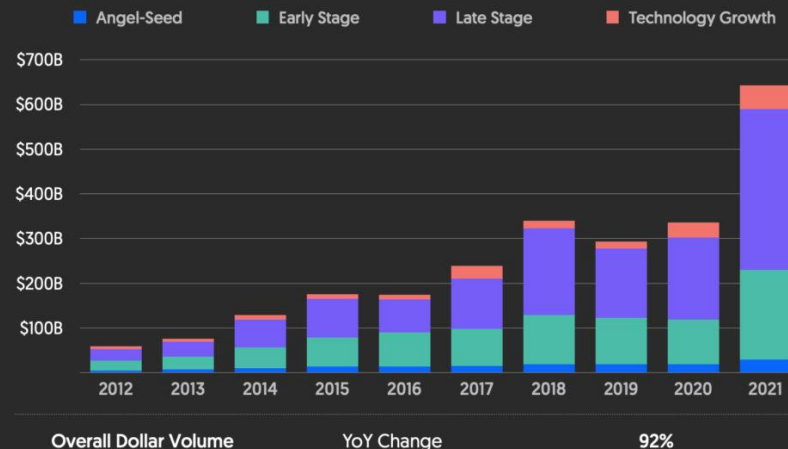
The wider economic impact of startup ecosystems

- Increased exports
- Increased Foreign Direct Investment
- Technology boosts countries geopolitical status
- Technology is easily scalable
- Prevention of brain drain and attraction of foreign talent

Why your Location Matters

Ecosystems Matter

Both unicorns and successful self funded startups are mostly born in hubs.
49% of global unicorns are based in 5 cities with the same average IQ as the thousands of other cities globally.
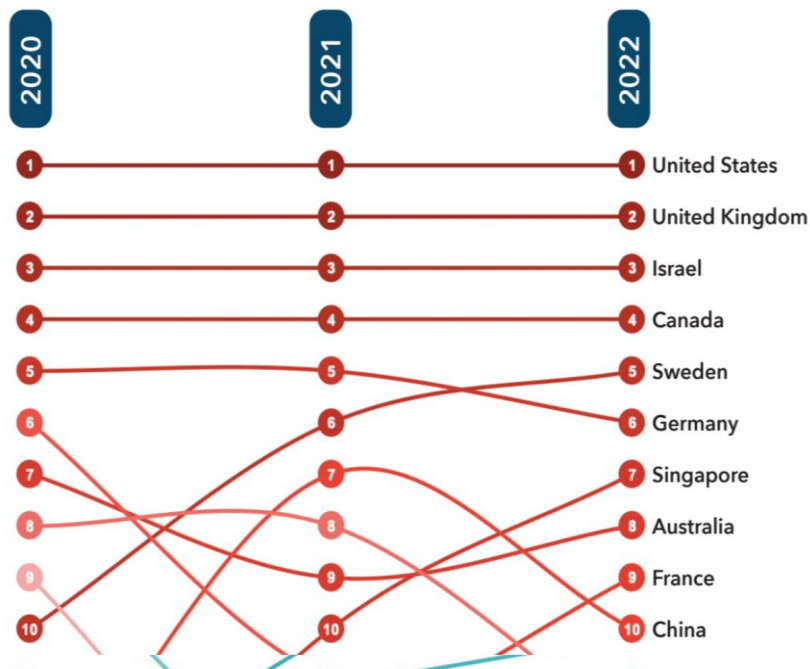
Conclusion:
If you are in underperforming ecosystem, either leave it, or lead It.

Current trends in Startup Ecosystems

Trends in Top 10 Countries

2020 | 2021 | 2022

1. United States
2. United Kingdom
3. Israel
4. Canada
5. Sweden
6. Germany
7. Singapore
8. Australia
9. France
10. China

- The **"Big 4" Startup countries remain the same** as in 2021: the US, UK, Israel, and Canada.
- There are 5 countries either returning or making their debut this year: **Andorra (89th), Senegal (92nd), Kosovo (96th),Angola, (97th), and Kyrgyzstan (100th).**
- The countries that have left the top 100 Index this year are Uganda, Nepal, Ethiopia, Paraguay, and the Dominican Republic.
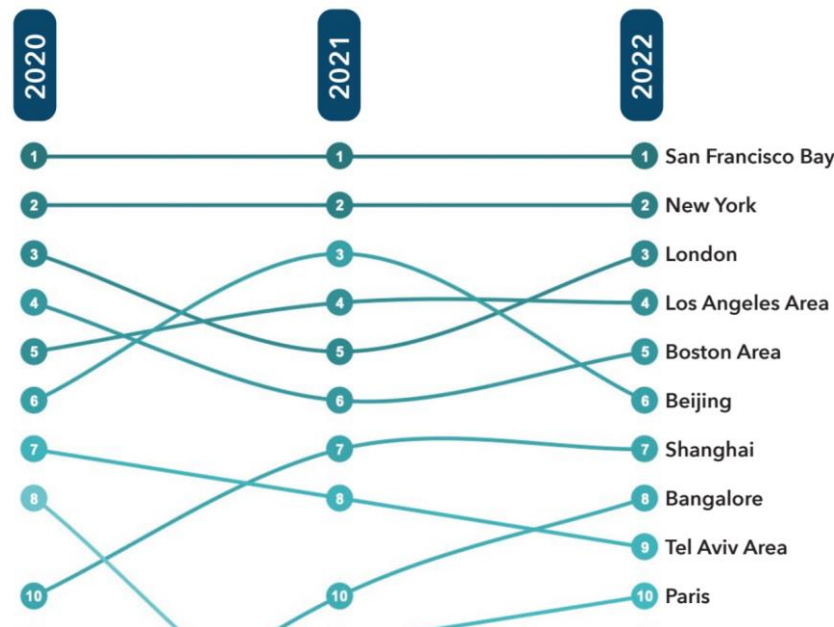
Current trends in Startup Ecosystems

- **San Francisco** remains the undisputed global leader in innovation, but New York, the world's 2nd highest ranked, is continuing a trend of closing gaps with San Francisco.

Trends in Top 10 Cities

2020	2021	2022	
1	1	1	San Francisco Bay
2	2	2	New York
3	3	3	London
4	4	4	Los Angeles Area
5	5	5	Boston Area
6	6	6	Beijing
7	7	7	Shanghai
8	8	8	Bangalore
		9	Tel Aviv Area
10	10	10	Paris

Current trends in Startup Ecosystems

Power Shifts and Regional Momentum- City Distribution

North America
29.8%

Asia & Pacific
15.9%

Middle East & Africa
5.7%

Europe
42.6%

Latin America & Caribbean
6.0%
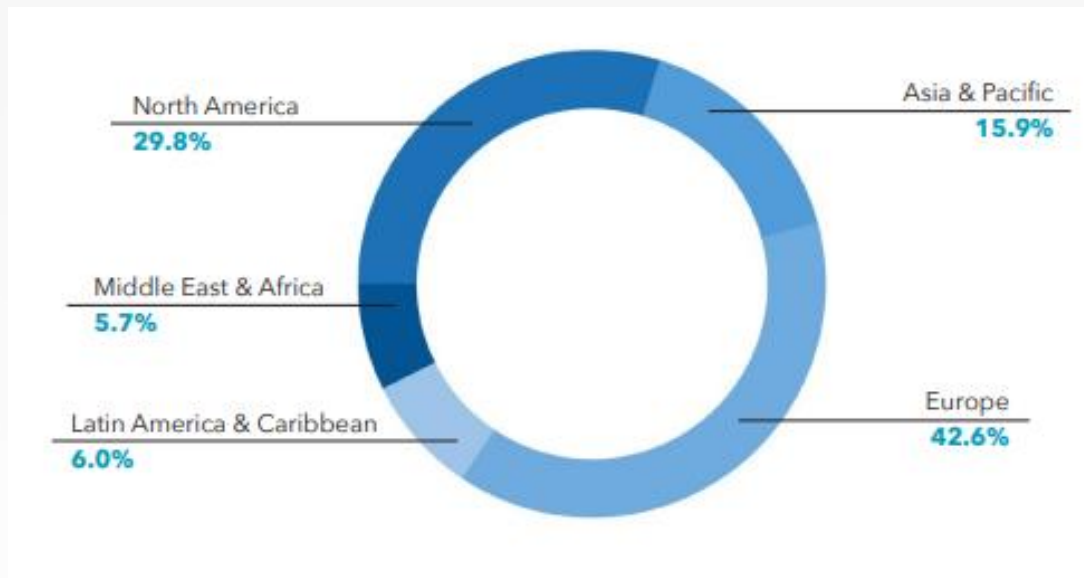
Current trends in Startup Ecosystems

Ecosystem Funding by Region

North America 52.3%
Asia Pacific 24.0%
Europe 18.3%
Latin America & Caribbean 2.9%
Middle East & Africa 2.5%
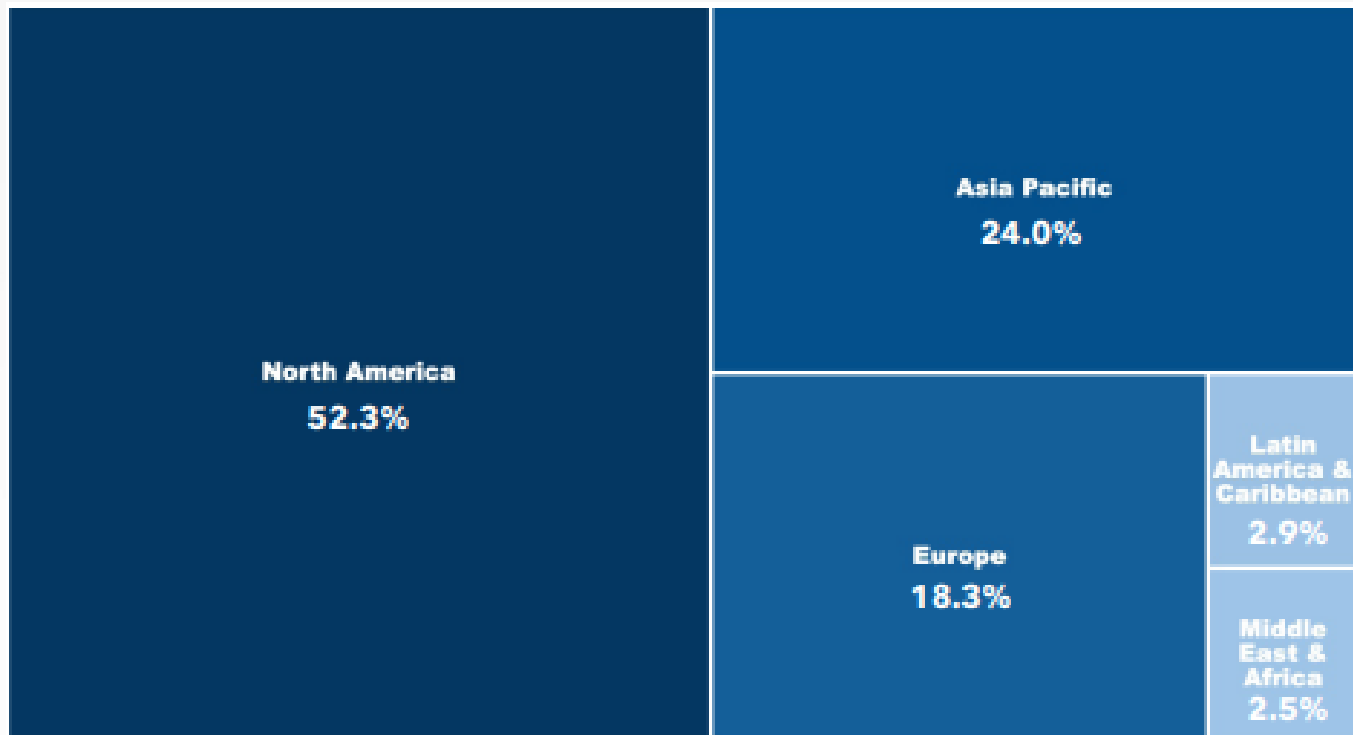
Current trends in CAREC Region

CAREC Rank & Change	Global Rank & Change	Country	Total Score	Quantity Score	Quality Score	Business Score
1st ▲0 ▼	10th −3 ▼	🇨🇳 China	20.663	1.97	16.04	2.65
2nd ▲+2	73rd ▲+7	🇬🇪 Georgia	0.931	0.29	0.13	0.51
3rd ▲0 ▼	74th ▲+2	🇰🇿 Kazakhstan	0.910	0.26	0.14	0.50
4th −2 ▼	76th −1 ▼	🇵🇰 Pakistan	0.717	0.21	0.24	0.27
5th ▲0 ▼	81st ▲+7	🇲🇳 Mongolia	0.582	0.22	0.08	0.28
6th ▲0 ▼	85th ▲+4	🇦🇿 Azerbaijan	0.494	0.18	0.06	0.26
7th ▲0 ▼	100th new	🇰🇬 Kyrgyzstan	0.258	0.09	0.06	0.12

Cities Table (Share Screen)

Elements of a startup ecosystem

Entrepreneurs	Investors	Accelerators/Incubators	Government
Universities	Community Leaders	Co-working spaces	Corporates
	Service Providers		

Understanding Startup Ecosystem Stakeholders

The Entrepreneurs

- The fundamental and most important element of a Startup Ecosystem
- Main incentives for becoming an entrepreneur
- The concept of co-founders
- The need to "fake it until you make it"- every founder has to be a dreamer
- Why "give first" mentality in places like San Francisco is so powerful yet hard to establish in other locations
- **Challenges**: Success rate makes it relatively irrational to build a startup

Understanding Startup Ecosystem Stakeholders

Universities

- Global approaches regarding the involvement of universities in ecosystems
- Prepare students with cutting edge tech skills
- Foster connections
- Research labs (deep R&D)
- Technology transfer offices (the power of non entrepreneurial researchers)

Challenges: Culture gaps and outdated curriculum

Understanding Startup Ecosystem Stakeholders

The Government

- The Government should be much more active in the beginning phases of low ROI in an ecosystem (snow ball metaphor)
- Should adapt a supporting role rather than a leadership/creator role
- Development Activities that are the core responsibility: Legislation, Analysis and Promotion (no one else can/would do them)

Challenges: Ownership and culture gaps

Understanding Startup Ecosystem Stakeholders

Investors

- Vary widely according to size of investment rounds and are generally split to Angel investors for the early stage and Venture Capital for later stages
- Most startups rely on self-funding options like government loans and support from friends and family for their development stages
- Crucial at a growth stage and one of the biggest obstacles for new startups to overcome (especially if R&D is involved)
- Be aware of the "spray and pray" dominant strategy
- The most impactful investors (smart money) from our experience are entrepreneurs who exited from a previous startup (the egg and chicken problem)

Challenges: Professional Investors tend to work in specific and already successful ecosystems

Accelerators/Incubators

- Facilitate connections between investors and entrepreneurs
- Mentorship and guidance for entrepreneurs
- Meeting place for entrepreneurs
- A layer of initial seed funding to bridge gap of private investors (in some programs)

Challenges: Variance in quality, short term solutions

Understanding Startup Ecosystem Stakeholders

Coworking Spaces

- Meeting place for potential co-founders and other stakeholders
- Allow those who can't work from home to stay efficient and focused
- Emotional support as meeting place like-minded entrepreneurs and freelancers
- Great location for startup related events

Challenges: Critical mass or too much competition

Understanding Startup Ecosystem Stakeholders
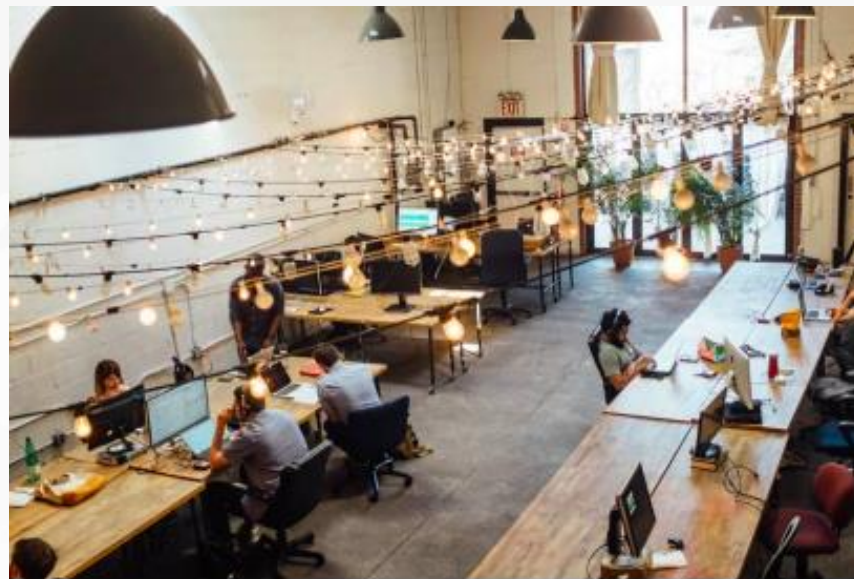
Private sector Ecosystem Developers

- Organize Events and Meetups
- Connecting the ecosystem stakeholders
- Connecting Entrepreneurs
- Mentorship and support
- Establish local startup communities (Meetup/whatsapp)
- Organize Mass events with international exposure and to local entrepreneurs
- Cutting edge knowledge sharing

Challenges: no clear path to monetize

Understanding Startup Ecosystem Stakeholders

Corporate Open Innovation

- Solving their problem of internally generated innovation
- Investment and joint ventures with startups (especially if deep R&D is needed)
- Corporate Accelerators

Challenges: Internal resistance + Culture gaps

Service Providers

- Examples:
    - Lawyers
    - Accountants
    - Recruiters
    - Marketing consultants
- Companies of individuals
- Layers of knowledge

Challenge: Critical mass, self funded startups, scarcity mindset

Ecosystem Development Stages

| Seed Startup Ecosystem | Developing Startup Ecosystem | Regional Hub | Global Hub |

Seed Startup Ecosystem

Tashkent, Uzbekistan

Haven't yet developed any
impactful startups but has a seed of startup activity.

Basic innovation infrastructure with a few coworking spaces and low accelerator activity, mainly supported by the public sector.

Startups may form in the city, but those scaling are likely to move to a bigger hub.

Government involvement is fundamental as the Startup Ecosystem isn't yet capable of generating a sufficient return on investment.
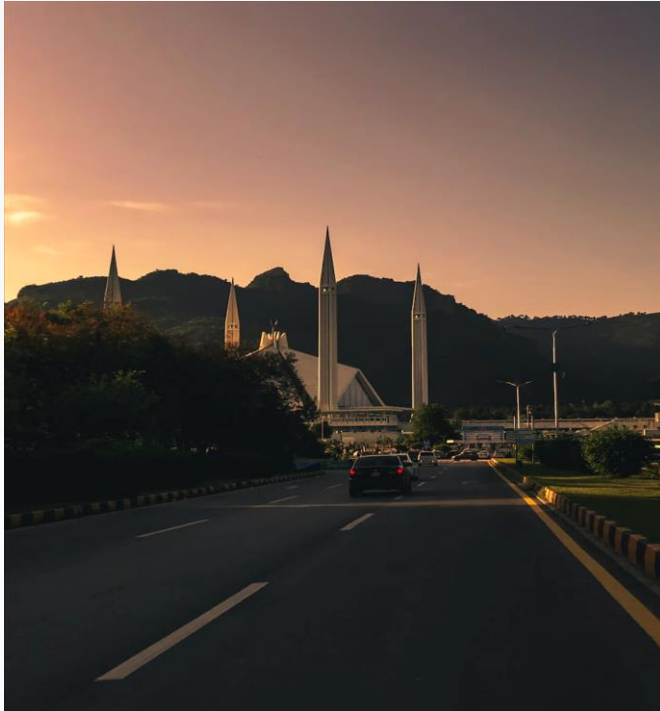
Usually ranked between 501st - 1000 in the StartupBlink Startup Ecosystem Rankings.

Developing Startup Ecosystem

Karachi, Pakistan

Demonstrates the enhanced components of seed ecosystems (startup founders and stakeholders community, awareness of startups in the population, public sector support of innovators, and basic infrastructure as coworking spaces and accelerators).

Few coworking spaces and accelerators that are mainly funded by the private sector

Usually ranked between 121st to 500th in the StartupBlink Startup Ecosystem Rankings.

Regional Hub

Hong Kong, China

A developed community of founders, frequently building high quality startups.

Either Cities that allow startups to scale products and services across a bigger economic region, or a mentality of building globally.

Will usually have a few unicorn candidates or unicorns.

Attractive to immigrating entrepreneurs.

Usually ranked between 31st to 120th in the StartupBlink Startup Ecosystem Rankings.

Global Hub

Beijing, China

Cities globally recognized as innovation powerhouses.

These ecosystems produce a few Unicorns candidates each year and also have a few unicorn and substantial exits (more than 1 Billion USD).

Usually international and multicultural cities attracting many foreign entrepreneurs.

Usually ranked between 1st to 30th in the StartupBlink Startup Ecosystem Rankings.

Ecosystem Development Guidelines

General Guidelines

- Our role is not to build the ecosystem, but to allow Entrepreneurs to fulfill their potential (fixing anomalies and roadblocks)
- If a government can only choose one activity to support its local ecosystem, it should just make sure it does no damage (bureaucracy, red tape, not providing basic infrastructure)
- Make sure you know when to pass the leadership to the private sector

Ecosystem Development Guidelines
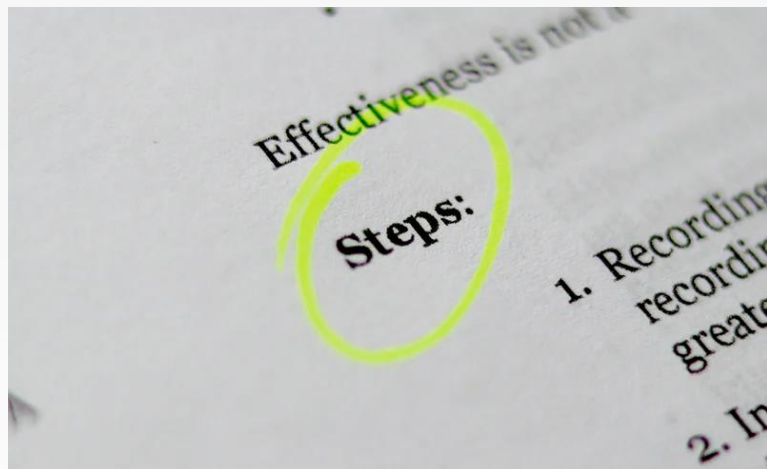
- Sometimes too much help makes more damage than good (creates entitlement mindset, doesn't let entrepreneurs fight for their own success, creates zombie startups)
- Focus on the macro (promotion, infrastructure, data, strategy) and not the micro (picking favorites)
- The less developed the ecosystem is, the more the public sector has to offer support
- A great initiative for one ecosystem can be disastrous for another ecosystem (or even for the same ecosystem based on timing)

Ecosystem Development Guidelines

Focus on key strengths for each startup ecosystem

- There are very few generalist ecosystems globally (usually the top 30)
- Your ecosystem is better off focusing on one or two key industries and achieve a critical mass and reputation in this vertical
- Examples of overperforming ecosystems: Odense (Hardware and IoT), Stockholm (Energy)
- Creatively think about unfair advantages your city has in a specific vertical (geopolitical, historic, resources etc.)

Legislation Challenges

- Complex and high taxes/social security payments on startups and individuals
- Difficulties in opening a company/close company
- Inability to form investment funds legally or lack of tax incentives for investors
- Flexible employment laws (hire/fire)
- Visas for foreign entrepreneurs
- If governments could choose only one course of action, that should be to avoid damaging their own startup ecosystems

Challenges

Bureaucracy and Red Tape Challenges

- Business registration and closure
- Social security
- Financial reporting
- Intense regulation for new products
- Inability to use tools and services locally (money transfers etc.)

Challenges

Infrastructure Challenges

- Internet
- Electricity
- Roads (Mainly for secondary ecosystems)
- Airport connections
- Conference rooms and event places
- Coworking spaces

Challenges

Talent and Capacity building challenges

- Accelerator
- Knowledge of English
- Modern curriculum in universities
- Mentors
- Events
- Communities

Challenges

Narrative and Promotion Challenges

- Your most ambitious entrepreneurs will leave an underperforming ecosystem
- Foreign entrepreneurs go to the international hubs (SF, London, the Shopify example)
- No budgets assigned to promotion (Only governments can do it)

A Startup Ecosystem is a product, a non branded product with no marketing budget will underperform

Data Flow Challenges

To develop your ecosystem with a effective strategic and promotion plans, you first have to map its main stakeholders

Other stakeholders will benefit from a public interactive resource showing them who is present in the ecosystem

The Critical mass Challenge

- Achieving a critical mass for your startup ecosystem prevents brain drain, builds an ecosystem of investors, and changes the psychology and narrative of the ecosystem
- Remember the second tier cities and ecosystem variety to achieve economic variety
- Snowball theory: Public sector needs to get it started as there is no ROI for private sector

Advice to entrepreneurs: If your ecosystem underperforms, leave it, or lead it.

Best Practices

- Government direct investment in startups with scale potential (helpful in non mature ecosystems when focusing on deep R&D).

- Matching mechanisms of funding with investors

- Free coworking spaces for the public in initial seed stage

- Subsidized mentors (good for SMB but the best startup mentors are non charging money)

- Public sector supported Accelerator programs (in smaller hubs)

Best Practices

- Programs allowing foreign entrepreneurs to immigrate
- Massively invest in improving English as a second language
- Test and be the first with initiatives that were never done before (startup Chile, e-residency)
- Encourage international corporations to build local R&D centers
- Push corporates to do open innovation (especially for smaller ecosystems and for monopolies)

Best Practices

- Track momentum and recent trends for better decision making
- Build a startup ecosystem local data portal
- Create promotional reports and presentations and actively "pitch" your ecosystem
- Spend money on PR and international and national media coverage
- Active lead generation of foreign and national startups and entrepreneurs
- Reduce tax rates for exporting startups
- Create tax benefits for investors
- Improve legislation that impedes startup growth

Q & A