

THE ATTRACTIVENESS OF INDIVIDUAL REGIONS OF THE EU AS ECOSYSTEMS FOR CREATING AND DEVELOPING STARTUPS

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Davydov D. S., Marchenko A. G. The Attractiveness of Individual Regions of the EU as Ecosystems for Creating and Developing Startups

The aim of the article is to study the attractiveness of individual regions, as places for the foundation and development of startups. The concept of «startup» is defined, and factors that contributed to the boom of startups in the 21st century are considered. Analyzing the statistical data, the formation of Berlin as one of the most successfully functioning startup ecosystems of the EU countries is considered. As a result of the study the factors contributing to attracting startups and venture capital to Berlin have been identified, their feasibility has been substantiated. Using the example of the successfully implemented TransferGo startup, the main startup development stages are considered and Berlin's status as an attractive startup ecosystem is confirmed. Prospects for further research in this direction is analyzing the efficiency of the startup infrastructure in Berlin, namely, business incubators and accelerators operating in the city, technological innovation of the startups based in Berlin, and forecasting of the region's future development.

Keywords: startup, startup ecosystem, startup infrastructure.

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Давидов Д. С., Марченко А. Г. Привабливість окремих регіонів ЄС як екосистем для створення та розвитку стартапів

Мета статті полягає в дослідженні привабливості окремих регіонів ЄС як місць для заснування та розвитку стартапів. Визначено поняття «стартап»; розглянуто фактори, що сприяли буму стартапів у XXI сторіччі. При аналізі статистичних даних було виявлено становлення Берліну як однієї з найбільш успішно функціонуючих стартап-екосистем країн ЄС. Виявлено чинники, що сприяють залученню стартапів та венчурного капіталу до Берліну, обґрунтовано їх доцільність. На прикладі успішно реалізованого стартапу TransferGo було розглянуто основні стадії, які проходить стартап на шляху свого розвитку, та підтверджено статус Берліну як привабливої стартап-екосистеми. Перспективами подальших досліджень у даному напрямку є аналіз ефективності стартап-інфраструктури м. Берлін, а саме: функціонуючих у місті бізнес-інкубаторів та акселераторів, технологічної інноваційності стартапів, що базуються у м. Берлін, та розробка прогнозу щодо подальшого розвитку регіону.

Ключові слова: стартап, стартап-екосистема, стартап-інфраструктура.

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Давидов Д. С., Марченко А. Г. Привлекательность отдельных регионов ЕС как экосистем для создания и развития стартапов

Цель статьи заключается в исследовании привлекательности отдельных регионов ЕС как мест для основания и развития стартапов. Определено понятие «стартап»; рассмотрены факторы, способствовавшие буму стартапов в XXI веке. При анализе статистических данных было определено становление Берлина в качестве одной из наиболее успешно функционирующих стартап-экосистем стран ЕС. Выявлены факторы, способствующие привлечению стартапов и венчурного капитала в Берлин, обоснована их целесообразность. На примере успешно реализованного стартапа TransferGo были рассмотрены основные стадии, которые проходит стартап на пути своего развития, и подтвержден статус Берлина как привлекательной стартап-экосистемы. Перспективами дальнейших исследований в данном направлении является анализ эффективности стартап-инфраструктуры Берлина, а именно: функционирующих в городе бизнес-инкубаторов и акселераторов, технологической инновационности стартапов, основанных в г. Берлин, и разработка прогноза дальнейшего развития региона.

Ключевые слова: стартап, стартап-экосистема, стартап-инфраструктура.

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In the 21st century, startups become equal players in the international market for goods and services, which are increasingly leaving behind huge corporations with a ten-year history in terms of the level of business, product and service innovation. In particular, a large number of world startups are being created in Europe today, namely in the UK and Germany, which makes these countries unique ecosystems for the development of startups.

Trying to define the concept “startup” it is important to note that many entrepreneurs and scientists still do not have a single vision of its interpretation. However, the most often used definition is the one offered by a well-known entrepreneur and the Silicon Valley investor Steve Blank: “Startup is an organization formed to search for a repeatable and scalable business model” [1]. In addition, it is evident that the important business feature needed for it to be defined as a startup is its recent cre-

ation. However, sometimes a business can be considered a startup even if it is created 5 or even 10 years ago in case it has not found a niche for itself yet. For example, Jan Koum, a co-founder of WhatsApp, one of the world's most popular messengers, says that for him a startup is not time bound. "Our company is five year old, but we are moving and making decisions very quickly, we are constantly creating products, so we are still a startup. We do not have meetings, conferences, etc.," Koum says [2]. Other relevant criteria include: dynamic growth, which is geographically unlimited; riskiness; uncertainty; innovation of the proposed solution of a consumer problem.

The spread of the culture of startups in our time is caused by a number of factors, namely:

- ✦ rapid development modern technologies – the spread of using the Internet, emergence of virtual sales channels (sites, platforms for doing business), development of different ways of payment and delivery, etc.
- ✦ simplification of procedures for attracting venture capital – more and more investors every day decide to invest in a new and risky, but probably highly profitable, enterprises;
- ✦ increase in the readiness of people to buy products or services from startups, which is explained by the present generation's openness to changes and innovation;
- ✦ emergence of appropriate infrastructure for the establishment and further development of a startup – business accelerators and incubators, co-working spaces, etc.

However, in different regions of the world, the prevalence of the startup culture and their number mostly differs. Focusing on the startup environment of EU countries, it can be seen that for the past 5 years the city of Berlin in Germany has been becoming increasingly popular as a place for establishing a startup. According to the Global Startup Ecosystem Report, in the 2017, the city of Berlin ranked the 7th among one of Europe's most exciting startup ecosystems [3]. In particular, according to the media a new startup is launched every day in Berlin and their total number already exceeds the mark of 2,500 startups. Interesting is that today in terms of dynamic development Berlin is ahead of even London, which for many years has been the leader in the European startup ecosystem ranking. Players of Berlin startup scene say that this is caused by Berlin's outrunning London in terms of the venture capital attracted in 2015. This in turn was triggered by exits of such successful German startup as Delivery Hero, which attracted investments in the amount of EUR586 million, Foodpanda – with the investments worth EUR193 million, and others, as well as successful IPOs of such German companies as Rocket Internet, which attracted investments in the amount of EUR6.7 billion in 2014 and Wunderkinder, which was purchased by Microsoft in 2015 at a cost of approximate-

ly EUR150 million. Thus, the total amount of attracted investments creates a lighthouse effect and attracts more and more venture capital to the city every day [5].

Interesting is the fact that startups are not only born in Berlin, they also move to the city. According to Berlin's Transition from a Global Startup to a Global Scaleup Ecosystem, 20% of the total number of Berlin startups moved to the city from any other location in Germany or from another country [3]. In *Fig. 1* we see that Berlin is ahead of other world startup ecosystems by attraction of global and national startups, and also exceeds the global average.

Moreover, Berlin's success attracts not only businesses but also human resources to the city. This is due to the low cost and, at the same time, high standard of living in the German capital, its location, etc. In particular, it creates a kind of two-way relationship: the attractiveness of Berlin as a city for life attracts young and creative immigrants who in turn create startups and promote the city in terms of its innovation development, and on the contrary, every day a growing number of startup businesses in Berlin create jobs and support the status of Berlin as a creative and innovative capital of the EU, thus attracting talented and ambitious people. Thus, *Fig. 2* shows the dynamics of business registration in Berlin in view of the companies launched in the city by the Germans and companies established by foreigners who moved to the German capital. We see that in recent times, the ratio of these indicators is almost 1:1, and this is caused not so much by the decrease in the number of businesses registered by the Germans, but by the significant growth of companies established in Berlin by immigrants from other countries.

Thus, everything above mentioned creates a trend, and even large international corporations are afraid of falling behind it. For example, Daimler, the Mercedes-Benz owner, rented an office space in one of Berlin's most famous co-working spaces in October 2015, and this was done in order to get quick access to innovative resources of young entrepreneurs who work there. Deutsche Telekom and Metro Group have also joined the trend by creating corporate accelerator programs in the city [5].

Making a conclusion, we can combine the factors that contributed to the formation of Berlin as one of the most attractive startup ecosystems in the EU, in the following groups:

- ✦ social factors: low cost and high living standards in the city, respect of Berliners to foreigners and migrants;
- ✦ geographical factors: its central location in Europe and its proximity to Eastern Europe;
- ✦ cultural factors: Berlin is conducive to the generation and implementation of creative and innovative ideas atmosphere;
- ✦ organizational factors: availability of appropriate infrastructure to facilitate the establishment and further development of startups;

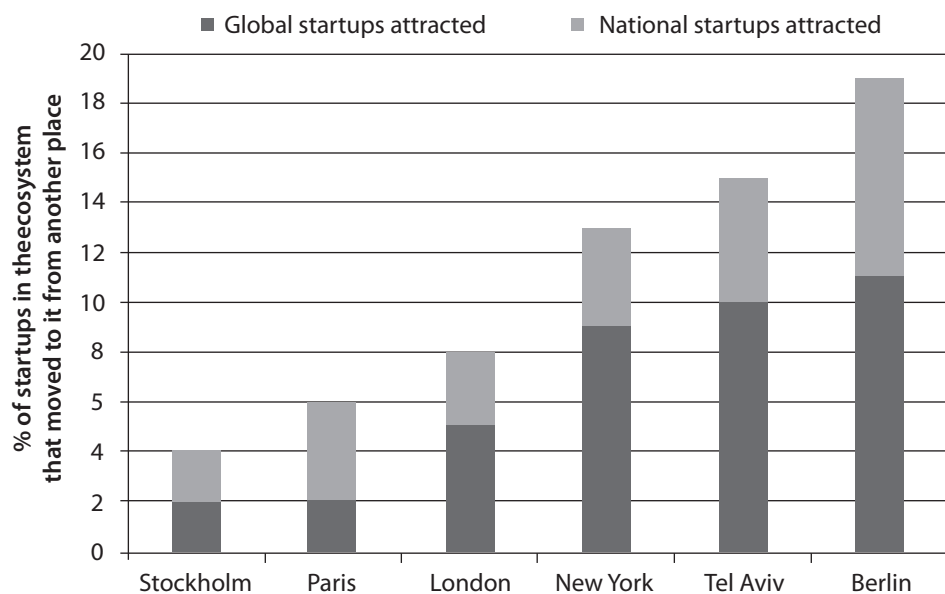


Fig. 1. Startup ecosystems by the number of startups attracted [3]

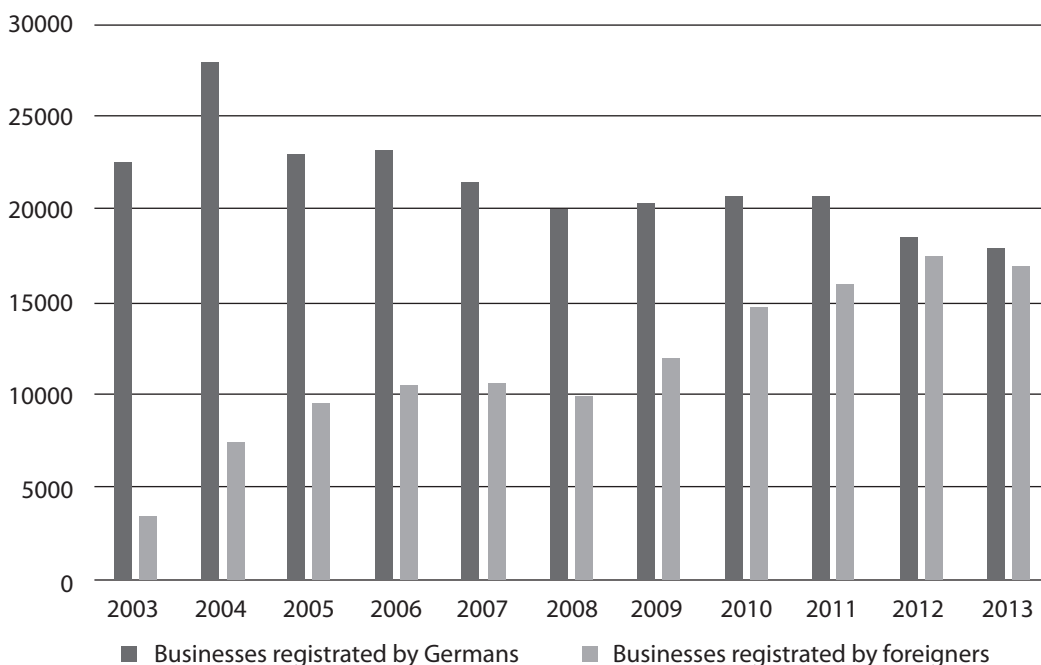


Fig. 2. Dynamics of business registration in Berlin, Germany in 2003–2013 [4]

- ✦ economic factors: high rates of success of German startups and great amount of venture capital attracted to the region.

Now we propose to consider this situation using the example of the startup TransferGo, which was founded in London in 2012 by four young entrepreneurs from Lithuania [6].

First, let us take a look on TransferGo as a startup. The company is an international money transfer service belonging to the modern Fintech industry, i.e., the field of business that combines companies providing financial services through the use of modern innovative technologies. TransferGo focuses on mi-

grants, since this particular class of society is inclined to make remittances to their relatives, friends, etc., and builds its business model on the cooperation with the traditional banking system. The principle of TransferGo operation can be characterized by a simple formula “local in/local out” (Fig. 3), i.e., money does not cross borders, and the client transfers a payment to the local bank to TransferGo’s account in country A, while another bank in the destination country makes a local payment to the recipient from TransferGo’s account in that country [6]. Doing money transfer this way helps to significantly decrease user costs, since the commission fee is considerably reduced and the need for currency conversion is eliminated.

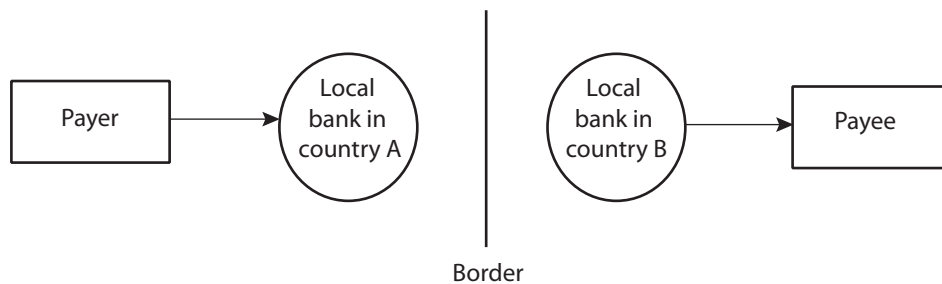


Fig. 3. TransferGo service scheme

Source: developed by the authors.

To date, a company that was founded only 6 years ago has already received 5 million pounds of income, and its annual growth rate is 71% (Fig. 4). The annual TransferGo revenue is US \$1.8 billion, and the total amount of money transferred through this service has already exceeded the mark of GBP1 billion. In addition, today the service is available in 47 countries of the world, including Ukraine, which market TransferGo entered most recently – in 2017, the platform has more than 700 000 registered users, and every day from May, 2018, 1 000 new customers are added to the service database. In October 2017, the former CEO of PayPal EMEA and COO Barclays, Rennie Lemmens, became the Chairman of TransferGo Board of Directors [7].

The history of development of TransferGo includes the following main steps:

1. Getting all relevant licenses and starting activity in 2012.
2. Joining Level3 Accelerator and Innovate Finance Industry in 2013.
3. Attracting investments from venture capital investors and venture funds for the amount of USD20.6 million.
4. Announcing the transfer to the stage of crowdfunding in 2018 and starting raising the amount of

USD13 million, of which today USD12.4 million has already been collected.

5. Getting the status of the world's first trading company to offer cryptocurrency trading in July 2018.

6. Launching Ripple (the payment protocol, which by means of the blockchain technology allows absolutely free money transfers in real time) in India in September 2018 [7].

So we see that TransferGo's path undoubtedly confirms its relation to the category of "startups" and we suggest focusing on the company's territorial affiliation. As it has been already noted, TransferGo was established in London, but today the company's representative offices are also open in Vilnius, Warsaw, and Berlin. The locations were chosen due to the concentration in these places of a large number of jobseekers and migrants, who are the main target audience of TransferGo. For example, in London the percentage of immigrants from Lithuania is very high, in Warsaw there are a lot of migrants from Ukraine, and in Berlin there are a lot of Polish people. Particular attention should be paid to TransferGo's Berlin location. The presence of a company in this city is reflected in the limited number of "community managers". This type of activity implies that the appointment of a special-

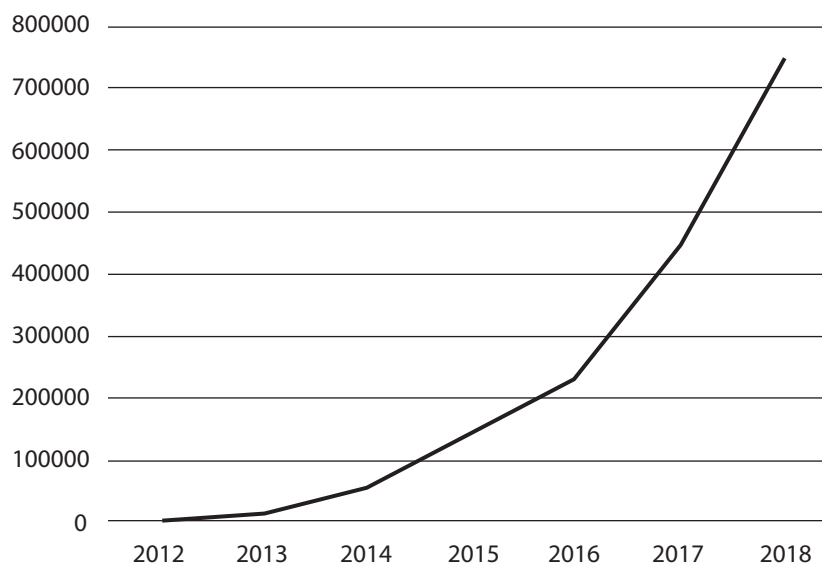


Fig. 4. Dynamics of the number of customers of TransferGo, 2012–2017 [8]

ist in a particular community be done on a national basis. This means that, e.g., the manager of the Polish community him/herself should be a Polish person by origin. His responsibility is to attract more Polish users to the service and increase the awareness of the Poles living in Berlin of the convenience of the TransferGo service. This is done by attending various national events, participating in different national groups or activities, etc. Thus, TransferGo in Berlin does not have either a separate office or a large number of employees. The community managers conduct their activities from the territory of co-working spaces, which are in great quantity in the city. Moreover, working from the territory of such spaces means that the manager is among young and creative entrepreneurs, founders of other startups, freelancers, which in turn helps TransferGo “keep up with the times”.

Thus, we see that a successful startup founded 6 years ago in London also joined the trend and did not neglect the opportunity of opening a representative office in Berlin. This once again proves the attractiveness of Berlin for startups from other cities and confirms the factors of Berlin’s attractiveness which are discussed earlier. Although London was undoubtedly the leading ecosystem of startups in Europe at the time TransferGo was launched, during its existence and development the situation changed, and today Berlin is ahead of London in many aspects, strengthening its position every day. Moreover, the infrastructure for startups that is developed in Berlin and represented by accelerators, co-working spaces, etc., makes it easier for startups like TransferGo to enter the market and significantly reduces the costs of opening a representative office in a country other than the UK.

CONCLUSIONS

Today Berlin has become one of the most attractive startup ecosystems in the EU. Furthermore, every day it is strengthening its position by attracting startups from other regions of Germany and from different countries around the globe. In this regard, Berlin can be named as one the most dynamic startup ecosystems not only in the EU but in the world as well. Moreover, it is leading in terms of venture capital attracted. ■

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