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European ScaleUp Monitor

European scaleups got knocked down,
but are up again

2021

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Preface

If 2021 has shown us anything, it is that we will always live with uncertainty. As destabilising as this may be, this is not necessarily bad news. It is just under these circumstances that new opportunities can be spotted, and new value can be created. Scaleups provide the perfect example of it. Scaleups, or young fast-growing companies, play a pivotal role in our economy as champions of innovation and job creation. Known for experimenting with new technologies, concepts and business models, startups are key to bring innovative value to the market. However, it is only when they manage to scale up, then they are able to maximise their impact.

A fertile innovation ecosystem where startups can successfully grow into a scaleup is therefore essential. So far, most attempts to study scaleups and their ecosystems have mainly focused on a regional perspective. While Europe has become more interconnected than ever and goods, capital and talent move at an increasingly high speed in her territories, one would then wonder: Why not look at scaleups and their ecosystems from a European perspective as well? With this question in mind, last year we started the European Scaleup Monitor to uncover the latest insights into scaleups' growth and impact within the European economy. We do this by bringing in our own expertise, but also working with top researchers and experts from all over Europe.

Once again, the European Scaleup Monitor provides interesting insights for both ecosystem actors and policy makers. The results of this edition are clear: scaleup ecosystems are vulnerable to external shocks and crises. Even the "top dogs" in the European landscape, UK and London, have not been exempted by the negative effects brought about by both Brexit and the COVID pandemic. At the same time, though, despite the persistent challenges of the latest months, we see resilience in the scaleup landscape and a promising outlook towards recovery. After the COVID blow caused a dramatic decline in investments into scaleups, the tides have changed. Investments into European scaleups have already bounded back to pre-COVID levels, while European countries are unfortunately still struggling with the healthcare crisis.

But what can we learn from each other in order to speed up the economic recovery in a more homogenous way all over Europe? At Erasmus Centre for Entrepreneurship, we believe that impact starts with knowledge. The European ScaleUp Monitor 2021 provides a platform that builds on the opportunities, challenges, best-practices, and other salient elements of the process of scaling-up within organisations and of the emergence of scaleups within and across countries as well as regional ecosystems. We hope that the European ScaleUp Monitor will serve as a learning and inspirational experience for all our readers.



Martin Luxemburg
Managing Director

Erasmus Centre for Entrepreneurship

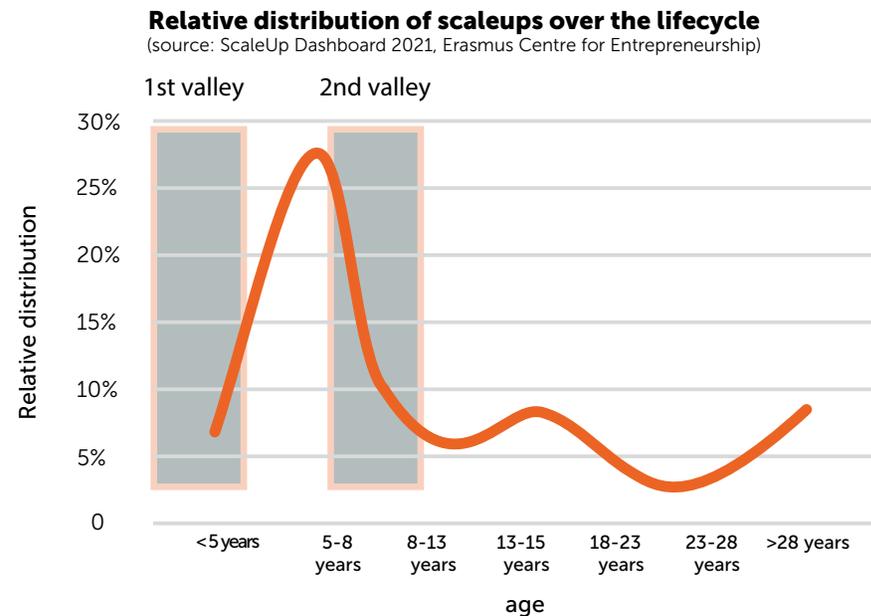
European ScaleUp Monitor 2021
Erasmus Centre for Entrepreneurship

From startup to scaleup: identifying young fast-growing companies

The challenge of starting a new business venture is a well-known fact but there is also clear evidence that growing a startup to a scaleup is even more challenging.

We identified 2 'Valleys of Death' in the lifecycle of a scaleup in our previous research, with around 90% of young firms dying within their first 5 years of existence ('The 1st Valley') and about 2/3 of scaleups ceasing to grow or dying before their 8th year ('The 2nd Valley')¹. As such, it is crucial to identify the resilient young scaleups that are able to survive these 2 'Valleys of Death' in order to ensure a more promising growth trajectory for young fast-growing companies.

There are various ways to identify scaleups. For example, growth in firm size (e.g., revenues or FTEs). On top of this, 'scaleup' can also be considered as a phase of growth according to lifecycle theorists². Growth requires funding and companies that are more likely to receive funds will grow more rapidly³. In line with academic literature⁴ and the Startup Europe Partnership reports, scaleups are therefore defined in this monitor as **young fast-growing companies (10 years old or younger) that have received at least €1 million within the past 10 years (January 2011 - December 2020)**. To present the latest and most relevant findings, this report focuses on the developments from 2017 to 2021.



Key takeaways



European scaleups got knocked down, but are up again: With respect to 2019, the total value of investment in European scaleups dropped by 20% in 2020. This is in contradiction to the long-run trend that has been going upward over the last 14 years. Although the year is not over yet, investment in European scaleups recovered in 2021, and 2021 investment level has already doubled the 2020-numbers.



God save the Queen. The United Kingdom is the leader in terms of both the number of scaleups and the total value of investment, followed by France and Germany at a distance. The top three countries attract more than 2/3 of all investment in scaleups.



Amsterdam awakes in 2021. Britain ruled the waves, but takes on water now. London is the European capital in terms of total investment in scaleups and the number of deals. However, in 2020, Berlin took over and collected the most funding for its scaleups, with London as the number two. So far, over 2021, Amsterdam is the top city in terms of funding (in euros invested) for its scaleups, followed by London, Paris, and Cambridge.



Digitalisation and Tech dominate the landscape. Most of the scaleups can be found in the Computer Software-industry (57.1%), followed by Banking, Insurance & Financial Services (12%), and Biotechnology and Lifesciences (7.5%). However, in terms of funding, Computer Software received 43% of the total funding, followed by Communications (18%), and Biotechnology, and Life Sciences (16%). Within the Computer Software-industry, Web Hosting & Internet is very dominant, followed by Application Software.



Energising the future and home delivery rule the roost. The European top scaleup companies are Northvolt (Sweden), IVC Evidensia (United Kingdom), and Delivery Hero (Germany).

European Scaleup Landscape

The location of European scaleups is heavily scaled towards a few locations as 97% of all scaleups are found in the top-20 scaleups countries.

In this respect, exactly half can be found in the two leading countries, the United Kingdom (33%) and France (17%). While Germany is a larger economy (in terms of GDP), it is ranked third place.

The clustering of scaleups in just a few countries has become more concentrated in the last two years. Five years ago (2017), London housed 14% of all the European scaleups, but this has grown to 18% in 2021.

Top Scaleup Countries

1	United Kingdom	
2	France	
3	Germany	
4	Spain	
5	Switzerland	
6	Sweden	
7	Italy	
8	Belgium	
9	Ireland	
10	Finland	
11	Netherlands	
12	Russia	
13	Portugal	
14	Hungary	
15	Austria	
16	Poland	
17	Denmark	
18	Iceland	
19	Croatia	
20	Romania	

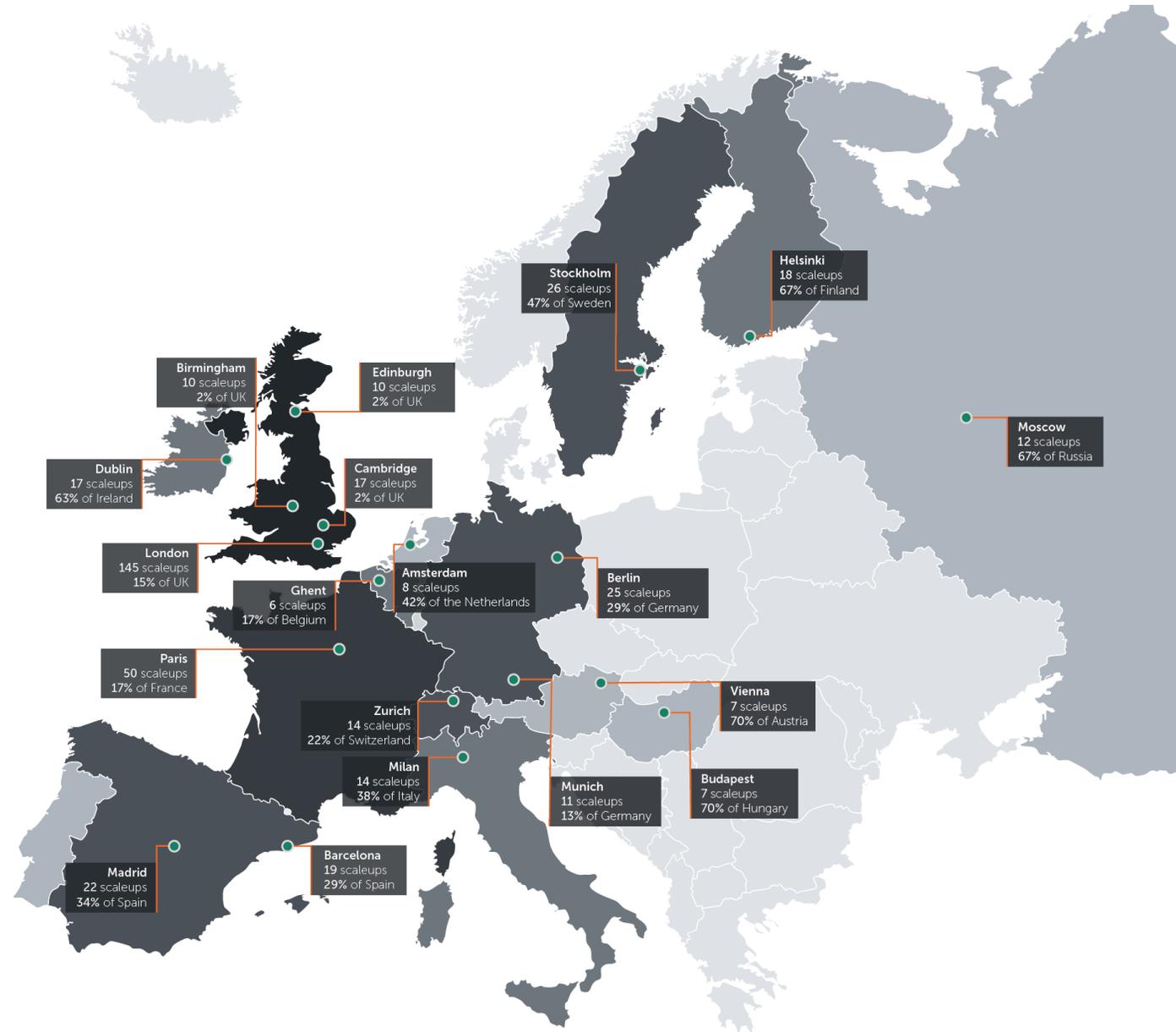
Top Scaleup Cities

1	London	
2	Paris	
3	Stockholm	
4	Berlin	
5	Madrid	
6	Barcelona	
7	Helsinki	
8	Cambridge	
9	Dublin	
10	Milan	
11	Zurich	
12	Moscow	
13	Munich	
14	Birmingham	
15	Edinburgh	
16	Lyon	
17	Basel	
18	Amsterdam	
19	Bristol	
20	Vienna	

European scaleup landscape

The UK positions itself as a European scaleup champion with eight cities in the top-20 with about 300 young fast-growing companies in our sample that received funding. London is Europe's scaleup capital, but Cambridge, Birmingham, Edinburgh, and Bristol also make it to the charts - Moreover, Manchester, Southampton, and Cardiff are knocking on the door. In his expert insight (The British ecosystem at a glance, page 10), dr. Keivan Aghasi zooms in on the scaleup landscape in the UK and explains its strengths.

Following the UK at a distance, France and Germany complete the top-3, with both of their capitals, Paris and London, firmly anchored in the scaleup cities' top-5. By no surprise, these countries are also leading in terms of GDP. Economies like Sweden, Belgium (page 11), and the Netherlands perform relatively well with respect to their size. In contrast, Russia and Greece have some catching up to do. Other large European economies, like Spain and Italy (page 12), are still lagging a bit behind, but look promising for the coming years.



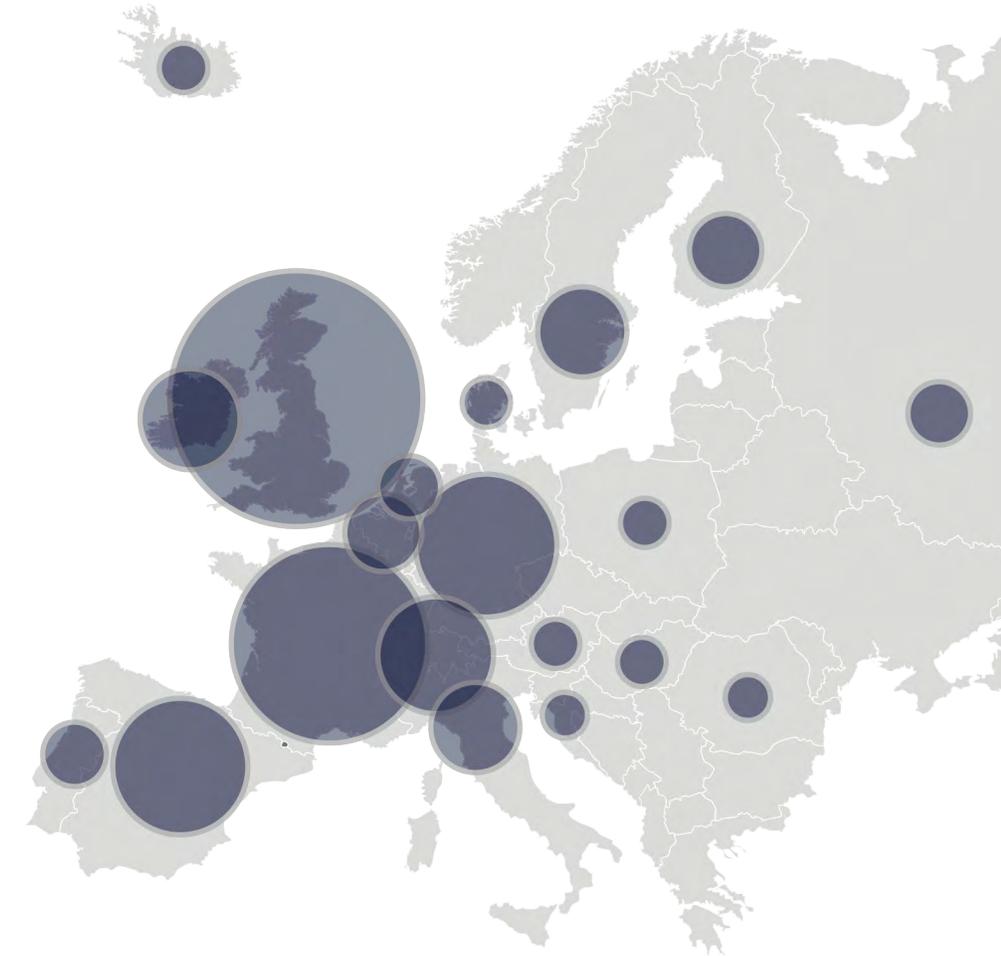
Scaling forces of firms, cities and regions

the word to
Prof. Dr. Frank van Oort

Instead of the often predicted “death of distance”, arguing that improved ICT-networks facilitate footloose entrepreneurs and firms and defy locational advantages⁵, we notice increased and selective agglomeration: a few cities and regions form spikes in the economic landscape of Europe, increasingly attracting capital, entrepreneurs, employment, and innovation⁶. This year’s monitor shows that the UK, Germany, and France are frontrunner regions for scaleups, and especially their capital cities London, Paris, and Berlin.

Uncovering the secrets behind scaleup clustering

Both economists and management scientists explain this by the identification of agglomeration economies: advantages arising from the density of economies. Firms tend to cluster together, even in the ICT-age, for several reasons⁷. First, firms and employees better match labour demand and supply in proximity, leading to less search costs for talent, human capital, and good employers. Second, manufacturing and service industries that need subcontracting partners (input-output relations) profit from short distances and large markets in agglomerations. Third, entrepreneurs and firms profit from knowledge spillovers in cities: the collection of universities, specialised knowledge service providers and dedicated, sector-specific innovative and creative capital. These three traditional mechanisms of agglomeration are labelled localisation economies that are specific to industries, and within this portfolio knowledge spillovers and human capital have over time become more important determinants of clustering than intermediate trade relations⁸.



Scaling forces of firms, cities and regions



Prof. Dr. Frank van Oort
Professor of Urban and Regional
Economics

Erasmus School of Economics

Besides localisation advantages, firms and consumers profit from indivisibilities in cities: infrastructure, the housing and real estate market, access to ports, and proximity to amenities. These urbanisation economies are part and parcel of the current economic agglomeration narrative.

Superstar cities' compositional advantages and the trap of low growth

Not all cities have a large enough critical size or production and amenity structure to turn these assets into value-added, cumulative advantages that surpass composition and sorting effects. Business service industries, high-tech manufacturing and computer software firms grow favourably in the current knowledge economy, and when a city or region is specialised in such activities it has a compositional advantage. This explains the favourable figures in this year's monitor for computer software scaleups in London and Paris, biotechnology and life science growth sectors in Switzerland and Belgium, and high-tech systems firms in Germany and France. Being specialised in generally low-growing and less productive sectors, complementary means a compositional disadvantage. Similarly, cities may attract more skilled workers that match the high-growth industries, who usually also offer higher wages for binding talent. This appears to be the case in all well-performing locations in the monitor, cumulatively fuelling the agglomeration advantage. 'Superstar' cities and regions like London, Paris, Munich, and Berlin (that are specialised in many industries and hence are also very diverse, making them

more resilient to international industry specific shocks) have both compositional (people- and firm-based sorting) and place-based advantages- the latter being an identifiable premium on productivity and wages that rises above the compositional effects.

Agglomeration economies are about economies of scale and composition

It is logical that scaleup entrepreneurs and firms are especially sensitive to these scaling forces. Heterogeneity studies show that on average younger and scaling-up firms profit more from agglomeration advantages, as are new technology adaptors and firms with a larger absorptive capacity. Yet, the observed heterogeneity does not exclude different theories remaining simultaneously relevant for the firm-agglomeration thesis. It can still be that large and strong firms with the greatest ability to absorb external knowledge have a competitive urban advantage, or the small, weak firms with the most to gain, and least to lose. Alternatively, it could be average firms occupying a 'Goldilocks position' – leaking less knowledge than their strong counterparts, and having a greater absorptive capacity than weak firms. Theoretical and empirical backing exists for each of these arguments: there are more ways that lead to Rome. Interestingly, both economic and management science studies reach these explanations using different identification techniques.

United Kingdom expert insight

United Kingdom

Number of scaleups: 296 (rank 1)

Top scaleup city: London (145)

Total scaleup funding: 4.234 Million

Top sectors:

1. Computer software (36%)
2. Banking, insurance and financial services (11%)
3. Biotechnology and life sciences (9%)



Dr. Keivan Aghasi
Research Associate

**Judge Business School;
University of Cambridge**

Looking at the scaleup ecosystem in the UK, one may notice that most scaleups are regionally concentrated in specific clusters. The golden triangle, an area surrounded by Cambridge, Oxford, and London, hosts the most scaleups in the UK ecosystem. The Scottish corridor of Edinburgh and Glasgow comes in second, Manchester greater area and Birmingham follow closely. What makes these regions fertile for scaleups is related to the availability of all three forms of capital: financial, human, and social. These regions provide the physical affordance of these three capitals to promising startups—no wonder why all these clusters have multiple airports in the vicinity to allow the inflow of capital from abroad. Also, the proper railway infrastructure allows mobility within these clusters; it takes only 40 minutes to commute from Cambridge to Kings Cross, central London.

Scaleups constantly require fresh blood to supply their organizations with the right skills to support their growth. Universities and higher education institutes in these clusters provide world-class education in the various fields of STEM combined with business and management education provides the alchemy for promising scaleups to hire the right talents. Moreover, these universities' strong network of local and international alumni provides leverage in these clusters to keep the ball rolling and connect their former graduates turned into business owners, entrepreneurs, and investors with new graduates looking for new opportunities. Such interactions help these new graduates to overcome their liability of newness and boost their social capital and equally assist the alumni in finding new talents for their businesses.

Finally, these clusters host financial intermediaries to supply the promising startups with the right capital balance to finance their scaleup journeys. Scaleups are likely to leverage financing from a wide range of external sources, and these clusters have actively attracted financial capital providers from equity and debt markets. Local investors turned into business angels in each of these clusters play an ambassadorial role to bring venture capital and private equity firms to the region to invest in their portfolio firms. Other financing methods such as trade credit, peer-to-peer lending, and invoice financing are best practices that most promising startups adopt thanks to the interaction with their peers in various support programmes offered by accelerators, incubators, and co-working spaces backed by local governments, banks, and universities in these clusters. The cohort-based peer supports mingled with mentorship improve the financial literacy of many of these startups to design a robust strategy for financing their scaleup transformation. London in the golden triangle is a case in point. It has been well-positioned as the financial hub facilitating the transatlantic transactions between the US and Europe; no wonder it became the leading fintech capital of the European continent, hosting specialized support programmes for startups disrupting the financial services space. Moreover, the plethora of financial service advisors, investment arms, and financial brokers in credit and debt markets make London the Meca for many startups seeking financial capital both in the credit or debt market.

Belgium expert insight



Belgium

Number of scaleups: 35 (rank 8)

Top scaleup city: Ghent (6)

Total scaleup funding: 224 Million

Top sectors:

1. Biotechnology and life sciences (34%)
2. Computer software (30%)
3. Industrial, electric and electronic machinery (10%)



Dr. Yannick Dillen

Lecturer in Entrepreneurship

Vlerick Business School

Belgium has claimed the 8th spot in the ranking.

Not a single Belgian city is listed in Europe's top 20 scaleup cities, implying there is no concentrated hotspot for scaleups in Belgium. The population density, especially in Flanders, leads to the existence of many regional cities where firms can start and find their first employees thus, the need to move to a large city in an early stage is less urgent. However, two regions are ahead of the pack. The Ghent region, known as one of Europe's biggest biotech clusters, accounts for 20% of the Belgian scaleup population as several biotech scaleups have been founded in the slipstream of stock listed biotech firms. 18,6% of all Belgian scaleups are active in the capital Brussels. However, with Leuven - the home of Belgium's number one university - roughly 25 kilometres away, many scaleups have positioned their headquarters on the axis between both cities.

The 188 scaleups that were identified have raised more than 1.7 billion EUR all together in the past ten years. As in many European countries, the funding ecosystem for scaleups has matured at a record pace. Several venture capital funds have emerged that were backed by offices of wealthy families. Those family offices are participating directly with scaleups as they seek to diversify their scope of investments and boost the Belgian economy by funding promising high-growth firms. A rather common phenomenon in the past was the fact that Belgian scaleups were

acquired by foreign players in a rather early stage of development. With the emergence of a domestic funding ecosystem that can keep on fuelling growth ambitions, the scaleups might persist in their high-growth without having to sell the majority of their shares to foreign industry players. The Belgian scaleup landscape could benefit from this evolution with potentially higher numbers of scaleups to be encountered in the short to medium term.

Another way to increase the amount of scaleups can be linked to the internationalization ambitions. In the annual Belgian High-Growth Monitor, it appears that the preferred growth strategy of Belgian high-growth firms is selling existing and new products in the existing market. In general, Belgians like to first conquer their own region before they take small steps towards the neighbouring countries. Being a relatively small country with 11,5 million inhabitants, it will be crucial to have founding teams with a 'born global' mindset to increase both the amount and size of Belgium-based scaleups.

Italy expert insight



Italy

Number of scaleups: 37 (rank 7)

Top scaleup city: Milan (14)

Total scaleup funding: 289 Million

Top sectors:

1. Communications (15%)
2. Computer Software (13%)
3. Textiles and Clothing Manufacturing (12%)



Nico Valenti Gatto

Operating Director

**Bocconi for Innovation,
Bocconi University, Milan**



Emil Abirascid

Founder and Editor in Chief

Startupbusiness.it

The Italian ecosystem is quite unique in the European landscape. First of all, it is sad to remark that the total yearly investment in startups and scaleups is still rather small when compared to other similar European economies, such as France and Germany. The figures do look encouraging, though, as the amount of total investments in young and fast-growing companies doubled between 2020 and 2021. However, the Italian ecosystem has far from expressed its full potential. This is reflected by the low level of maturity of some secondary yet not less important elements of the scaleup ecosystem, including institutional support and internationalisation.

For example, when talking about scaleups in Italy, it's interesting to note that some of them are actually based in Italy, and these are what one would officially refer to when talking about Italian scaleups. Others are founded by Italian entrepreneurs based outside of Italy, such as Soldo in the UK or Kong in the USA. The fact that Italy still needs to refer to these internationally-based scaleups to boost its figures is a sign of a market that is still relatively young, but it is also a sign of talent and high quality entrepreneurs that stem from Italy and Italian universities.

These factors are nevertheless not stopping smart Italian entrepreneurs from starting up their ventures and, eventually, successfully scaling them up. During the last 10 years, a quite consistent number of made in Italy startups managed to grow up to become top European scaleups that are capable of attracting top foreign investments and expanding worldwide. The large rounds that we've seen over the past year have

been an incredibly positive signal that investors and founders have started to see eye to eye and that Italian tech companies are being given the chance to expand internationally, attract and retain talent and most importantly, inspire seed startups to focus and reach similar if not bigger goals.

In this year's edition of the European ScaleUp Monitor, Milan is confirmed as the main scaleup city in Italy, while other very important cities such as Rome and Turin are showing positive signs of growth. It is important to notice, though, that the total amount of investments in a city's scaleups is just an indication of the general performance. Investments are in fact cyclical and fluctuate from year to year in terms of their destination. Some years more money goes towards scaleups, some other years more money is invested in seed-stage startups. This depends on several factors, for instance on which sectors the most active funds in a given year are, what the (new) fiscal policies are, and how active the so-called informal investors such as business angels and corporate investments are.

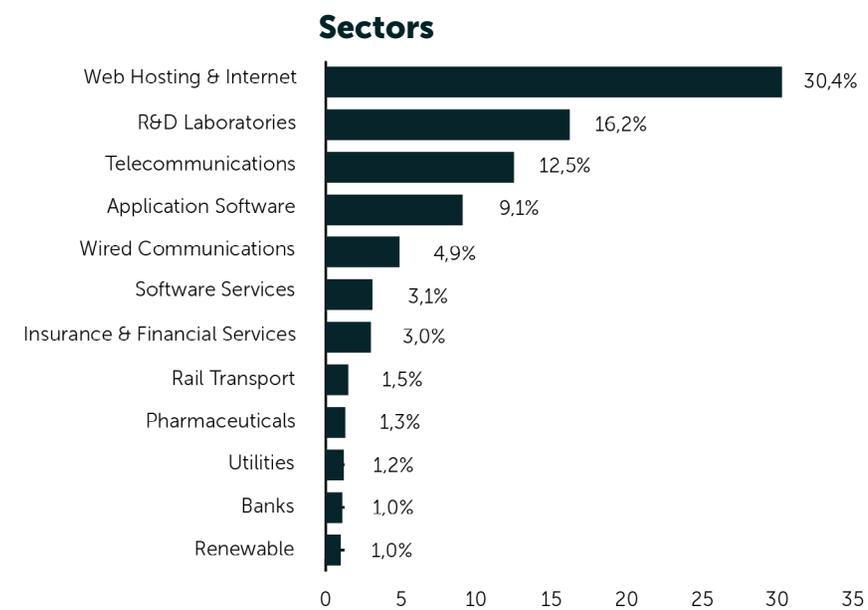
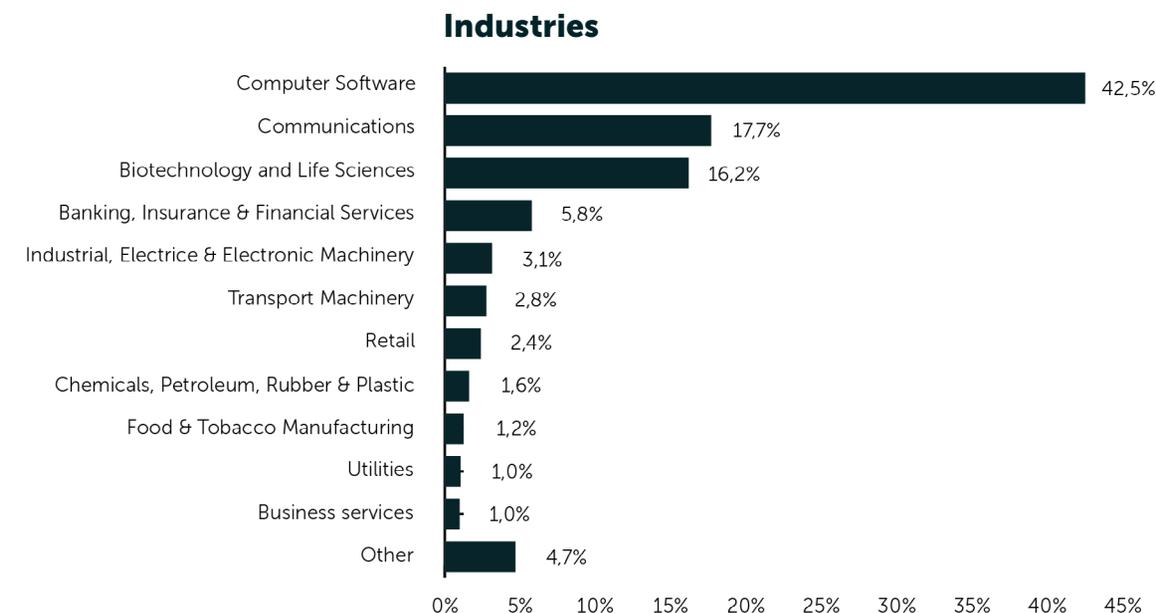
In conclusion, what is most important to focus on is strengthening a real European startup and scaleup ecosystem, where investments, partnerships, hiring are more fluid, easier and more effective. That's why the European Scaleup Monitor is an important tool: to better understand the European scaleup scenario as a whole, rather than compare single ecosystems, an approach that appears quite outdated in 2021.

Technology dominates the scaleup industries and sectors

Computer Software in the winning seat: Computer Software is by far the leading scaleup industry in Europe as more than half (57%) of all fast-growing companies operate in this industry. It also attracts 43% of all investment in fast-growing companies. The UK dominates this sector as it houses 1/3 of all scaleups in this industry and 1/5 only in London. However, this industry is even more represented in other countries, such as Sweden, Germany, and Finland (with close to 70%), and it's even more prominent in smaller scaleup countries like the Czech Republic, Estonia, Latvia, and Norway, with more than 80% of their fast-growing companies operating in Computer Software.

Investment concentrates in innovation-hubs: Next to Computer Software, the technology-loaded Communications and Biotechnology & Life Sciences industries complete the podium. Together, the top-3 scaleup industries collect more than 3/4 of all investment in Europe's fast-growing companies. Biotechnology heavily clusters in Switzerland and Belgium (page 11) as one out of five Swiss and Belgian scaleups operates in this sector. Banking, Insurance & Financial Services, of which half of the firms are located in London, is a good number 4, but lost ground over 2021.

Computer Software also rules on sector-level while MedTech follows the lead: The three leading industries also house the most funded sectors. Scaleups in the Web Hosting & Internet-industry collected more than €5.3 billion together, which is more than 30% of total scaleup investment, and even more than the number two industry, Communications. In this period dominated by the COVID pandemic, Research & Development in the Biotechnology and Life Sciences-industry received almost €3 billion, finishing on the second place. Medical & Laboratory Appliances also make it to the top-10 funded sectors.



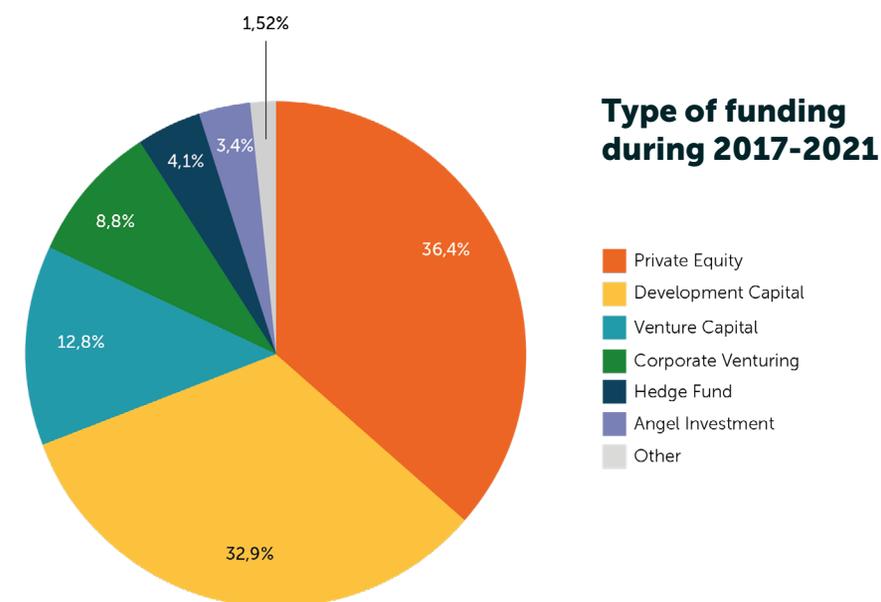
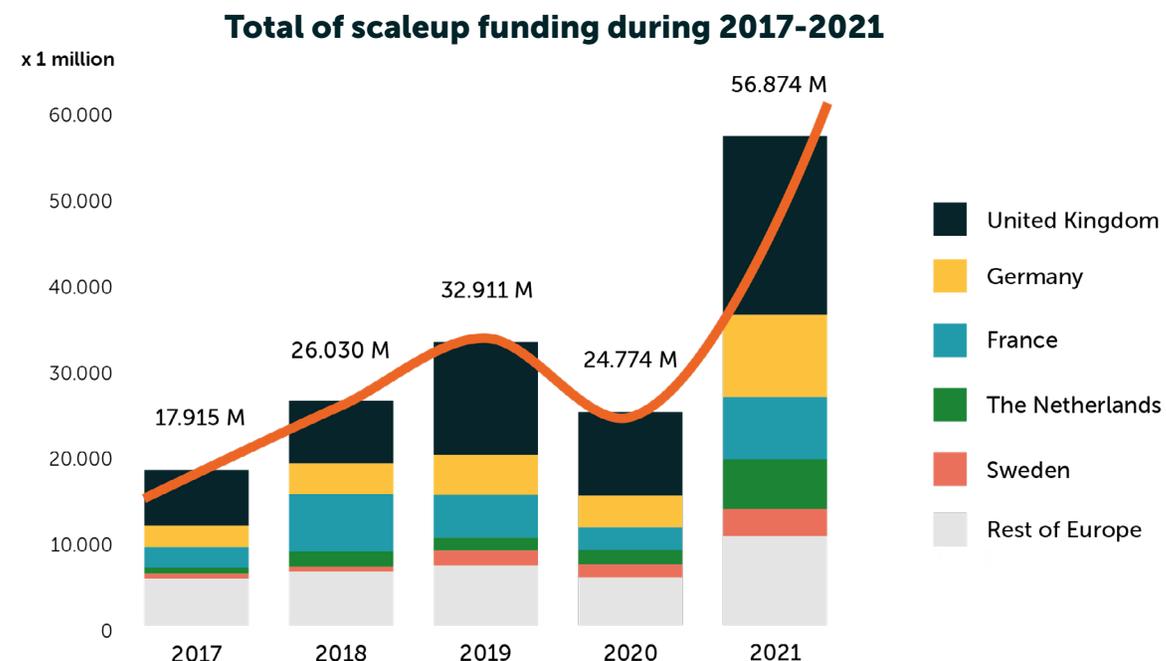
The scaleup investment landscape in Europe

COVID breaks the investment trend, but recovery-mode is on.

The total value of investment in young fast-growing companies has grown rapidly over the last decade, from €7 billion in 2011 to already €56.9 billion in 2021. Over the last five years, European scaleups collected more than €158 billion in funding, which is essential for their growth. As discussed in detail in the COVID-analysis (page 19), investment dropped by 20% in 2020, but recovered firmly over 2021.

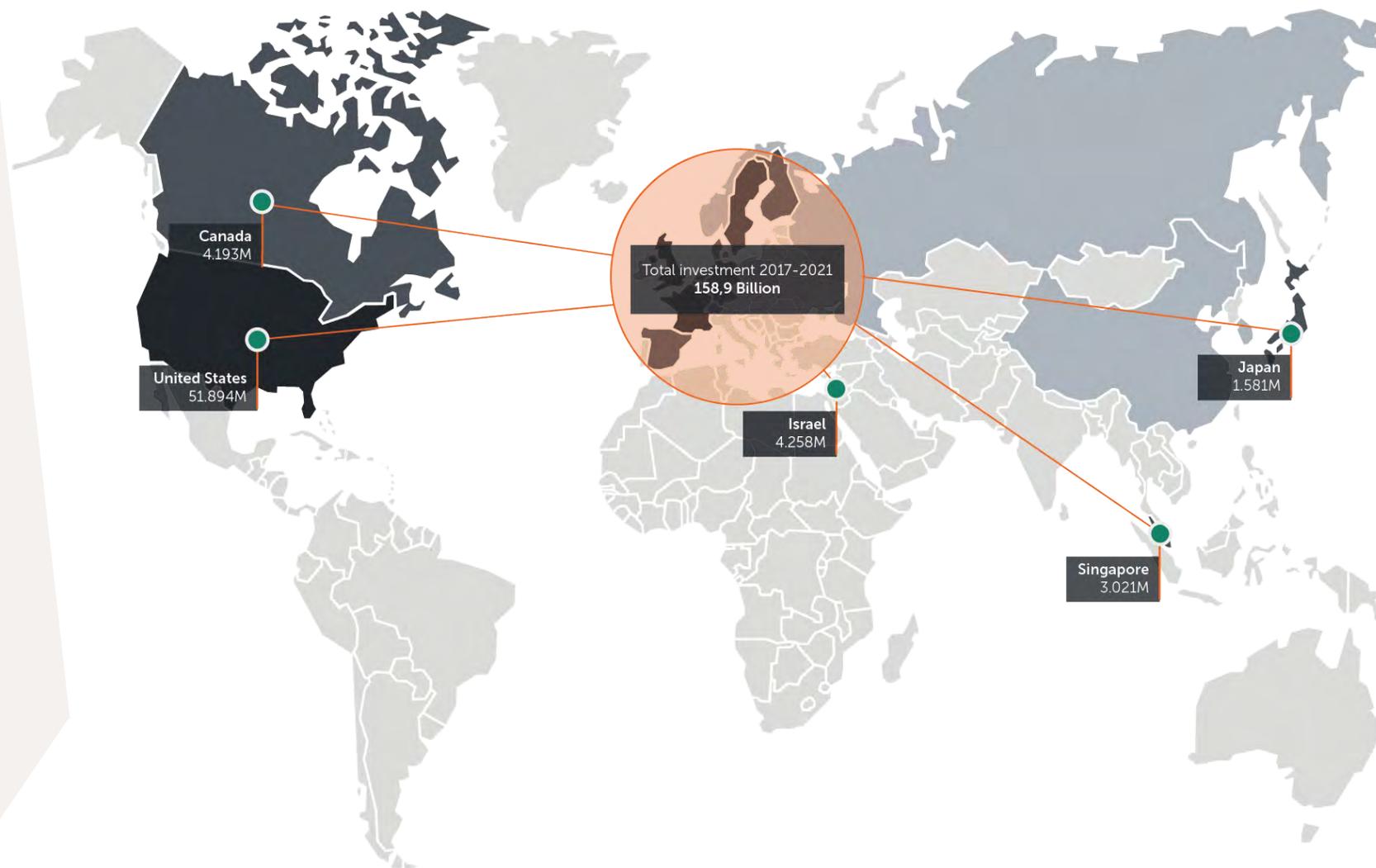
Private Equity and Development Capital are key sources of funding.

The dominant types of investment in European scaleups are Private Equity (PE) with 36.4% and Development Capital 32.9%, followed by Venture Capital (VC) 12.8% and Corporate Venturing 8.9%. Corporate Venturing has been heavily fluctuating over the last ten years, but has stabilised as a quite important investment type, with roughly 9% of the total value in investment in 2020 and 2021.



Uncle Sam and John Bull are leading investors in Europe.

American and British investors provide the lifeline for young European fast-growing companies. Over the last five years, American investors supplied more than €51 billion, almost 30% of total investment. The number two investment country is also not from the Continent. Even after Brexit, British investors heavily invested – more than €8.5 billion since the start of the decade. Other remarkable top investors are based in Luxembourg (7th), Israel (8th), Canada (9th), and the Cayman Islands (10th).



Berlin and Amsterdam leapfrog London.

Although the Netherlands just falls out of the top-10 in terms of its' number of scaleups, it is the number three country in terms of total investment. While Dutch scaleups had a hard time in 2020, the country attracted the most investment over 2021 so far. While London is still steadily leading the pack in terms of its' number of scaleups, Berlin and Amsterdam are knocking on the door. Berlin's fast-growing companies collected close to 15% of all total 2020 investment and Amsterdam is currently leading this years' chart. Scaleups in Cambridge (United Kingdom), Lausanne (Switzerland), and Munich (Germany) also do well in getting their hands on significant investment, relative to the number of firms located there.

Northvolt lights up and leads.

The Swedish battery developer and manufacturer Northvolt, founded in 2015 and located in Stockholm, is Europe's top-funded scaleup, seen over the last five years. Other leading fast-growing firms are IVC Evidensia (UK: Veterinary services for livestock), Delivery Hero (Germany: Home delivery), Glovo (Spain: Home delivery), and Messagebird (Netherlands: Web Hosting & Internet).



Bridging the Female Funding Gap



Jacqueline van den Ende
CEO and co-founder

Carbon Equity

According to research by Dealroom, female-led startups raised less than 3% of the total \$120bn in funding. Furthermore, when they raise capital they typically raise smaller rounds. Why are women anno 2021 still lagging in the fundraising game? I believe there are 3 key assets that help founders get funded: Network. Knowledge/ understanding of the fundraising process. And most importantly: Confidence.

The confidence gap

Most new entrepreneurs lack understanding of the fundraising landscape. But what female entrepreneurs seems to lack more than male entrepreneurs is network and confidence. Confidence is the hardest part to fix because it is the most deep rooted/structural challenge. Network and knowledge we can ultimately fix. But confidence is a different ball game. My hypothesis is this:

White men grow up in a world in which every successful person ever looks like them. There are white male presidents, tech billionaires, or open a random website of a top tier law firm or investment firm... and it's likely by and large male and white. As a result white men grow up believing that they can achieve anything. Yes they can be an entrepreneur. They see examples left and right. So why could they not do the same? Starting a company is a risky endeavor. So the main ingredient you need to start a company is self-confidence, the belief that Yes you can!

Confidence also very much reflects in the ability to think big or bigger. Women start many companies, but I often see that women struggle to think as big as their male counterparts or fail to communicate their ambitions in the same exponential proportions. This is part realism and/or more humble communication – which I think is a great virtue (that requires different listening/interpretation skills on behalf of investors) and part perhaps lack of confidence that they can build a global business. Why? Because you have seen no one like you who did the same.

The network issue

Then there is the network issue. Male entrepreneurs typically know other male entrepreneurs who know investors. Hence they can learn about the process from their friends and perhaps through referrals to

get in touch. For women – who have no network – getting in touch with investors is perhaps a bridge too far. Women also tend to be more apprehensive to contact investors. 'Is my business even fundable, am I worthy of an investment? Perhaps – but then let me raise a small amount rather than a big funding round based on my big bold vision'. Early stage investors need to believe in one key thing and that is you as an entrepreneur. I dare say early stage investors invest in something like 90% founder confidence and capabilities and 10% idea. So you better come with a big bold, exciting vision, which you wholeheartedly believe to get people on board in that early phase.

So how do we solve this?

First I think we need some big structural changes that fortunately are already well on their way. We need children books with female CEOs and surgeons. We need to teach kids entrepreneurship in school so everyone learns that "Yes, they can!". We need to highlight the role models that we have. We need to build self-confidence, practice our pitches, learn the lingo, learn to stand tall and bring it. Initiatives like the We Rise program do exactly this and are immensely helpful in building up those skills and that confidence.

We need network – make it easier to get in touch with investors. There are some great initiatives with female investors uniting and hosting office hours for female founders so it becomes a lot easier to sign up and get in touch.

Finally, we also need to get rid of our biases, which I dare say, are equally large for female investors as for male investors. Unfortunately the mental picture that comes to mind when speaking of successful entrepreneurs is white and male. This is by and large simply the truth. So we need to rewire. This requires time – but in the short run – awareness of and attentiveness to our biases can go a long way in mitigating them. Honestly, as women we can do a whole lot more to support each other, build up one another's confidence, rather than competing.

Women, let's bring it! The future is female and diverse!

The secret to a successful scaleup ecosystem?

Take on an embracing approach open to both public and private partners



Dr. Hein Roelfsema
Director Public Domain

Unknown Group

In 2021, we can confidently say that the startup revolution is a success, at least in Northern Europe. It is then time to move on to the next challenge: ensuring that startups continue to grow. The success of the startup revolution comes in large part from the successful building of entrepreneurial ecosystems, often with the support of central and local governments. This primarily means giving companies support while taking the first steps to build a solid business model. But this will not be enough to help companies to scale up, will it? At Unknown Group, we developed our own recipe for success.

Our secret ingredient is the involvement of the ecosystem at large, including the private sector. Unlike those ecosystems that are only created top-down by public partners, successful ecosystems embrace an evolutionary process of finding each other and making a joint proposition. In order to do that, there needs to be parties (like us...) that connect scaleups with each other in addition to supporting them. We do this through the so-called venture engines, loose organisational forms where companies are primarily connected based on a common theme and shared challenges. Managing such an ecosystem is more like a professional soccer coach, ensuring that players can find each other on the pitch. This approach is also particularly suited to address societal challenges, such as energy transition, food technology. This is for instance what we are doing together with the municipality of The Hague, resulting in an entrepreneurial impact agenda.

The second factor determining the success of a flourishing ecosystem for scaleups is the type of funding. While the United States looks at venture capital as an engine for growth, it is more complex in Europe. Here, too, venture capital is increasingly important, but the active commitment of larger companies is also necessary. In our context, it is therefore essential to combine venture capital with the commitment of large companies, not only with their financial resources via corporate venture funds, but also more on their innovation agenda. To do that, you need to link venture engines with venture capital and large companies, and have them jointly support a funding strategy for scaleups. Once scaleups, investors, and large companies work closely together, better links to public facilities such as universities and regional development agencies will follow suit.

However, connecting fast-growing companies requires the right initiatives. Top-level educational programmes that Erasmus Centre for Entrepreneurship and their international partners organise, are essential for business learning, but also to strengthen the connectivity of the network. We are looking forward to working more with such partners to build an ecosystem with solid complementarities connecting education, capital, business support, and open innovation from large companies.

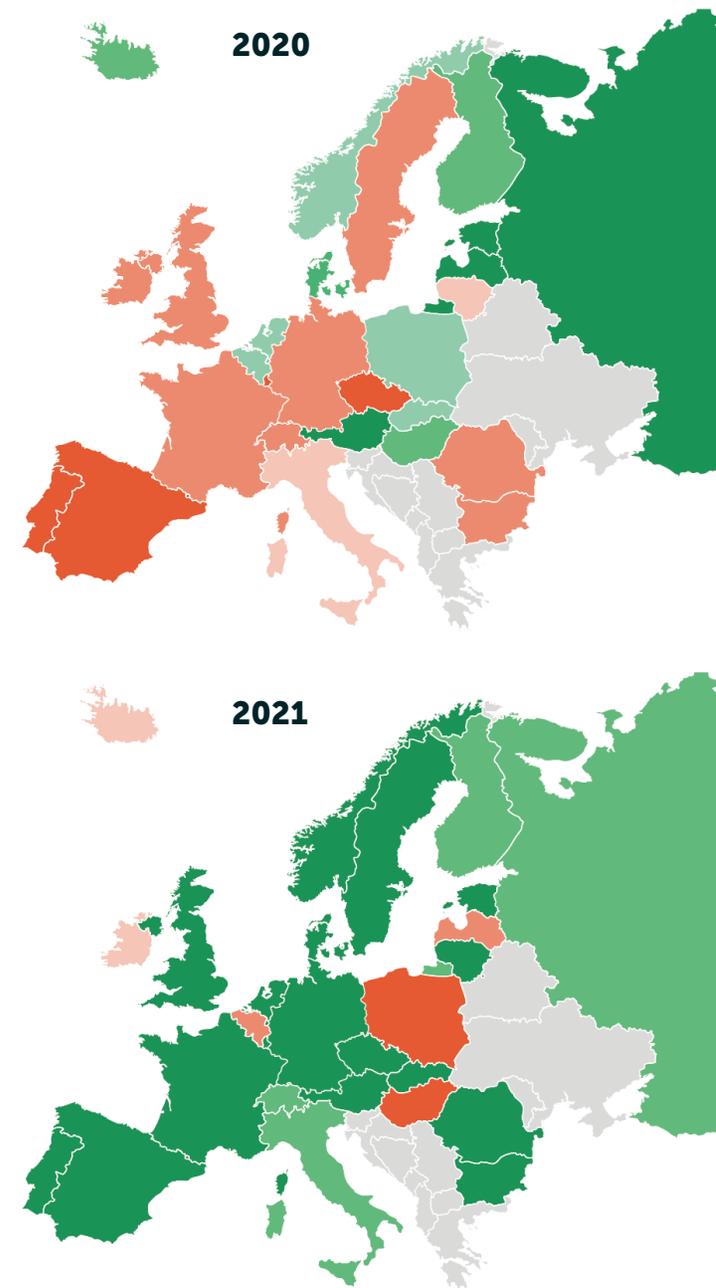
European scaleups persisted the COVID Storm

Tackled, but back at their feet. The unfolding of the COVID pandemic disrupted the upward trend in the funding landscape of Europe's fastest-growing young companies. Total investment grew by more than a third on average from 2017 to 2019, but declined by over 20% in 2020. Although Europe is still battling against the virus, the continent's young fast-growing companies recovered quickly and, remarkably, the investment in scaleup companies is on its way to double the 2019-numbers. Investors seem to realise the opportunity of investing in scaleups, which can provide them with generally excellent return on investment in a landscape with an ever-growing money supply and low interest rates, while at the same time driving the rebuilding process of the European economy in the post pandemic period.

Never waste a good crisis. Although on average European scaleups took a serious blow, some countries really stand out in their performance. For example, investment in Austrian and Russian fast-growing companies almost doubled in 2020. Although not as notable, Belgian and Dutch scaleups still collected more investment over 2020 than in 2019. On the other hand, the top-3 European scaleup countries, the United Kingdom, France, and Germany, noted severe red numbers for 2020 – especially France was hit hard. Fast-growing companies in Sweden, Spain, and Switzerland seem to also have problems with collecting funding.

Fifty shades of green: red numbers fade out the chart in 2021. Despite COVID still dominating the headlines, European scaleups seem to have shaken off the growth restrictions. The top-3 scaleup countries recovered well, and investment seems to heal 2020's wounds as it is approaching double 2019's numbers – with France leading here in terms of recovery. Of the top-10 scaleup countries, Belgian is the only one that has not already surpassed 2020-levels, but it's over 2019's levels already.

Computer Software, Business Services, and Communications thrive on WFH. For European scaleups, the pandemic turned out to be a severe asynchronous shock. Scaleups that could facilitate the means to keep the economy and social life running flourished, reflected in the growth of Computer Software, Business Services, and Communications. Investment in medical solutions to find a way out of the pandemic boomed too: Research and Development in Biotechnology & Life Sciences and Pharmaceuticals noted remarkable growth figures. Surprisingly, given the importance of e-banking in times of digital shopping, scaleups in Banking, Insurance & Financial Services had a hard time in 2020 and 2021.



Conclusion



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Towards a scaleup ecosystem approach

After the 2020 shock and crisis, the general picture for 2021 seems to suggest that scaleup ecosystems in Europe are recovering. Importantly, our European ScaleUp Monitor 2021 indicates that investments in European scaleups have doubled this year compared to the previous year. While this is promising, it is important to realise that **'Access to Finance'** is only one building block of a scaleup ecosystem. Therefore, the big question is whether the other building blocks have also been strengthened in order to keep up with the fast pace of increasing Access to Finance. Otherwise, the key challenge for the ecosystem may not be associated with Access to Finance but rather other more encompassing aspects that may be more difficult to change.

- **'Access to Markets'** does not only refer to the size of markets and their pace of growth. What is at least as important is whether the original local markets are progressive enough and whether customers and users themselves are really advanced and demanding. If so, other parts of the ecosystem are forced to continuously improve and be motivated to become the best.

- **'Access to Talent and Knowledge'** is another pillar for any ecosystem, which is even more important for scaleups, simply because they need to recruit a lot of new people. Interestingly, it is not only highly educated talent which is important. It is also about being able to have enough people on the ground, for instance, to accommodate all kinds of logistical processes that

are important for scaleups to prosper. Furthermore, scaleups are always short on managerial talent! Given the complexity of leading and managing a scaleup company, investments in leadership development and managerial skills are crucial for persisting high-growth over time.

- The fourth building block is **'Access to Related and Supporting Industries'**. Scaleups have a huge need to professionalise, hence the importance of high-quality service- and advisory-related companies which can be scaleup themselves as well. There is also a question of the right partner-companies being present for co-creation, co-production, and collaborative go-to-market strategies: a preferred way for scaleups to innovate and grow fast. The experience scaleup ecosystems have in breeding and nurturing scaleups, and to support them to transition from one phase to another is therefore crucial.

- Finally, any ecosystem is embedded in an **Institutional and Cultural context**. Many factors matter such as the physical and digital infrastructure, the presence of knowledge, governmental or semi-governmental institutes, research and educational organisations, the general entrepreneurial spirit, and - importantly - the ambition levels of local politicians, entrepreneurs, and employees.

Overall, this year's monitor indicates that funding of scaleups has increased dramatically, yet we recommend taking a holistic, ecosystem approach to assess and improve all building blocks in order to strengthen the context in which scaleups can prosper in the long term.

About

Erasmus Centre for Entrepreneurship

Erasmus Centre for Entrepreneurship is Europe's leading entrepreneurship centre. Driven by the belief that entrepreneurship is the most important condition for innovation, we strive to weave entrepreneurship into people's DNA, leveraging the knowledge and network of Erasmus University Rotterdam, a university founded by entrepreneurs more than 100 years ago. The European ScaleUp Monitor is one of many research projects that we conduct to monitor the European innovation ecosystem and provide insights to strengthen it.

Research into scaleups

Scaleups play an important role for the economy: not only do they provide new business activities and job creation, but they also bring changes and innovation with them. It is therefore necessary that we continue to invest in supporting startups and scaleups with our local, national and European government agencies. It is especially important now more than ever to do so in times of uncertainty. In this way we can strengthen (local) innovation ecosystems and increase the positive impact of fast-growing companies on a city, country or at the European level as well.

At Erasmus Centre for Entrepreneurship, we work together with various municipalities, development companies, ministries and other public organisations around the world to help them realise that mission. We offer them scientific insights into their ecosystem and the companies that play an important role in it. At the same time, we combine this with practical knowledge and recommendations to create a favourable

economic environment that enables local businesses to continue to grow and innovate.

As we did in 2020, starting with this publication, in the coming months, we intend to make even more resources available to foster scaleup growth at the European level. In this way, we want to maximise the impact of the knowledge European universities have around this topic.

Interested?

For further questions, reach out to us via the contact details below.



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Methodology

The insights shared within the European ScaleUp Monitor 2021 are the result of a combination of qualitative and quantitative research approaches. The qualitative contributions are presented in a list of acknowledgements in the next page.

Identification method and sample selection

The quantitative analysis is based on a large database, incorporating the deals of Europe's young fast-growing companies, carefully composed, with the main input coming from Zephyr. Zephyr is the most complete, up-to-date database available with detailed information on global deals, mergers, acquisitions, and financing methods operated and maintained by Bureau van Dijk. According to the database, more than 1.6 million deals were completed between 1 January 2007 and late November 2021. Out of this, we filtered the relevant deals based on two main identification criteria, in line with the academic literature and the Startup Europe Partnership reports. Firstly, scaleups are defined as young fast-growing companies that are, at maximum, 10 years old at the moment they collect investment. Secondly, the minimum value of investment received is set at €1 million over a ten-year period. In order

to avoid biased results, accounting for the natural life cycle of investment in firms, investment deals in scaleups are selected based on flexible, over-time identification. Specifically, as we focus on the period 2017 to 2021, we already include deals starting from 2007 in order to define whether a firm has passed the funding threshold over a ten-year period.

Moreover, as this is the European ScaleUp Monitor, we focus exclusively on the 43 countries that are geographically part of Europe, though this categorization is arbitrary to a certain extent - including Russia but excluding Turkey and Israel. Finally, as we emphasize the strong relationship between investment and company growth, we include only minority stake deals, and exclude IPOs and changes in the ownership/equity structure. This selection process results in the 1.6 million deals being cut down to 21,474 completed deals by Europe's young fast-growing companies.

Observations included in the Zephyr-database are verified and double-checked based on Tracxn and Crunchbase.

Contributions

The Erasmus Centre for Entrepreneurship Research Team members who contributed to this edition of the European ScaleUp Monitor are:

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- Prof. Dr. Frank van Oort (Full professor Applied Economics & Professor of Urban and Regional Economics; Erasmus School of Economics)
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- Nico Valenti Gatto (Operating Director, Bocconi for Innovation; Bocconi University)
- Emil Abirascid (Founder and Editor in Chief, Startupbusiness.it)
- Jacqueline van den Ende (CEO and co-founder, Carbon Equity)
- Dr. Hein Roelfsema (Director Public Domain, Unknown Group)

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