

Executive Summary

Trends in the german support-systems oft Start-ups – Incubators, Accelerators and others

A study commissioned by the
Federal Ministry of Economics and Energy
(BMWi)

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Berlin, March 2018

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Objectives

The present study is commissioned by Germany's Federal Ministry for Economic Affairs and Energy (BMWi) and conducted by the Institute for Innovation and Technology (iit) as part of VDI/VDE Innovation + Technik GmbH. It elaborates current **trends in the German support system for startups** and emphasizes novel modes like e. g. incubators, accelerators. It thus focuses on the following questions:

- How is the German support system shaped and structured in regional, governmental and institutional ways?
- Who are the relevant actors? What are their intents and purposes?
- What are the actual needs and demands of startups? How do these affect the instruments and structures of the corresponding support system?
- Which current trends and dynamics shape Germany's support system for startups?
- Which international lines of development need to be taken into account? Are there any international best-practices that should be applied to the German support system?
- Do the results call for action in the political or economic implementation of the support system or its specific areas?

Methods

To achieve its goals, the study follows a **mixed-methods-approach**. It contains literature and web reviews, secondary analysis of available databases and reports, and the collection of primary data. In this last regard, the study conducted 95 telephone-aided expert interviews as well as online surveys with 284 startups and 237 providers of startup support offers.

Drawing on insights from these analyses, the study derived findings on the current state of the German support system for startups, developed perspectives for its future development, and

articulated starting points for public and private actions. In November 2017, the iit thus gathered with experts to discuss the results of the study as well as their political implications.

Market analysis and current state

It becomes obvious that startups need support in any of their development stages. While early ventures often seek help to gain access to seed investments, customers, or infrastructures, established startups rather ask for support to further develop their business models and extend their (international) market reach. Together with Germany's growing startup ecosystem, this broad scope of topics causes an increasing complexity within the national support system.

In total, the present study identified more than 1,130 actual offers that aim to help startups thrive in one or another way.



Fig.: Instruments of the German support system for Start-ups (*not analyzed)

This large number is mainly a result of the last seven to eight years, which were shaped by growing number of new ventures and an increased political and economic interest in the startup-scene. **While these dynamics caused a general rise in the establishment of support structures, it also triggered their differentiation in terms of addressed technologies, branches or startup lifecycle stages.** However, the analysis of the current state of support structures also suggests that the boundaries between formats like incubators, accelerators, co-working- and maker- spaces etc. are often blurring.

Although the top view on Germany's startup support structures generally unveils a broad, fully fledged ecosystem, the detailed analysis revealed that together with the **growing complexity of support structures and instruments, the challenges to meet the actual demands of their "customers" increase, too.**

Indeed, it turned out that the latest developments sometimes spurred a lack of clarity about what startups have to do in order to get support. **Additionally, not all of the novel instruments meet the startups' expectations towards quality and gains.**

This is mainly due to an ongoing differentiation among particular offers and instruments. While some of them give monetary support, others primarily focus on non-monetary services. Further, the actors that provide support also divide: Some have their backgrounds in the public/governmental sector, others stem from private companies. In this regard, it is mandatory to reflect that there are both, companies that build their business model on startup support as well as corporate enterprises that aim to tap into the startup scene. **Hence, since each of these groups of actors follows its own intents and purposes, it becomes challenging for startups to find the right offers that fit their actual needs.**

As most of the private providers of startup support seek to attract the most promising ventures, the competition among them intensifies significantly. This favors high-quality instruments and thus strengthens the startups in negotiating the conditions of joining particular support programs. Moreover, a growing number of international companies like Techstars, Plug-and-play or Techcode ambitiously enter the German market and even spur the emerging competition. Thus, most of the interviewed experts interpreted the trend towards market consolidation quite positively in terms of an increasing maturity of Germany's startup ecosystem.

Public programs and instruments generally exist beyond these immediate market pressures as they tackle more comprehensive goals and rather seek to close gaps in private support structures. We found that public programs especially gain attraction at the nexus of science and

entrepreneurship as they often address university spin-offs and try to merge technology exploration and exploitation. **Although our surveys revealed that some experts criticize public support programs for minor quality and efficiency, it becomes obvious that also public actors are on their way towards increased professionalism and maturity. Still, their commercial independence shows clear advantages.**

Regarding the startups that benefit from support structures, digital ventures still have the largest share. **However, the differentiation of Germany's startup ecosystem also represents the entrepreneurial dynamics in fields like e. g. biotech, medtech, industrial and automotive applications, or the energy sector.** Since high-tech-startups usually connect to support programs specialized in their particular domain, we can observe a co-evolution of new ventures and support providers.

Assessment

The analysis shows that the current supply of support fits the demand of startups well. Although their actual needs change during their lifecycle, opportunities to join respective programs seem to be usually given. This secures an extensive and effective support landscape, in which new ventures can grow and thrive.

As the entrepreneurial efforts of startup founders become increasingly professional, they begin to strategically choose the providers of support programs. Especially the reputation of the provider within the startup-scene and their particular motifs turn out as key criteria. For the most promising startups, the choice of the right support partner also depends on negotiations on what the venture is willing to give – e. g. whether or not they transfer equity or shares to support providers.

Additionally, most startups also become very aware of what they can expect from support actions – if providers fail to contribute the right assets, their reputation may soon decrease. Also new programs from mostly unknown actors may struggle to establish their particular offers within the support system.

Our surveys show that startups rate support actions from private suppliers most positively

while also joint efforts that stem from collaborations of different actors provide good support. The startups covered in our sample so far barely engaged in programs from international companies. Points of criticism usually relate to a lack of transparency, both in terms of options and conditions for gaining support.

Trends

The study reveals a couple of trends that shape the current support systems and its mid-term development.

First, the increased complexity on the supply side decreases transparency on the demand side. For many startups it

becomes incrementally difficult to find the right offer for their particular needs. The growing number of companies and programs that offer startups support also causes differences in quality that are also hard to detect. In this regard, one should think about approaches to increase the visibility, comparability, and transparency of vendors and programs. This would also help providers to identify strategic niches and secure the quality and uniqueness of their instruments.

Second, we observe that the ongoing differentiation of the support system promotes a so called “verticalization” of programs that increasingly focus on specific technologies, and thus develop high expertise in a particular field. In this context, also branches that were formerly less associated with entrepreneurship develop means and ends to support new ventures.

Third, the study sees tendencies that in the private sector, established modes of investment-driven support transform into efforts that emphasize innovations as main purpose for startup support. This trend especially reflects the ambitions of established companies to tap into startups. In this regard, corporates rather invest in building own

incubators and accelerators that help them to connect to young talents and their innovative ideas. In these contexts, reciprocity and transparency between startups and corporates is the key criteria to leverage collaboration.

Fourth, the trend towards market consolidation also leads to a coupling and blending of support actions and instruments. Instead of providing distinct formats like

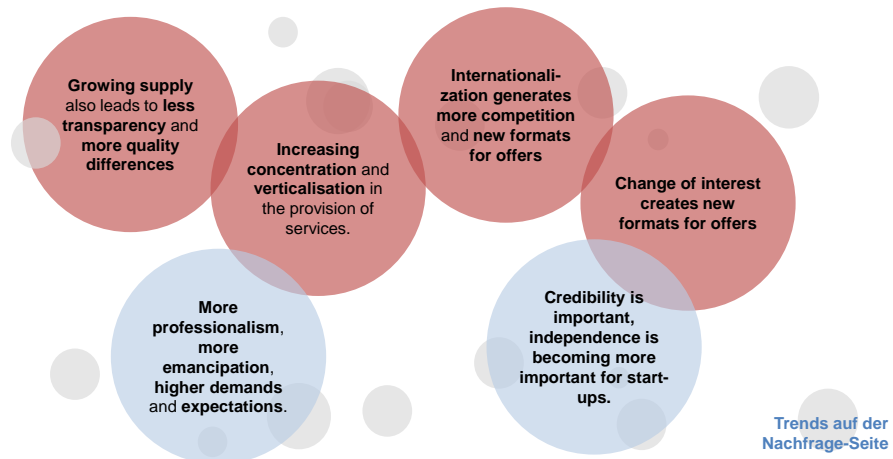


Fig.: Trends in the German support system for start-ups

incubators, accelerators, or co-working spaces, especially large vendors tend to promote themselves as “one-stop-shops” that are able to provide a broad scope of services and adapt them to individual needs.

Fifth, the emerging relevance of international support programs into Germany’s startup ecosystem even accelerates the race for the best and most innovative instruments and offers. This correlates with the high expectations and criteria that promising startups apply when choosing their support programs. All in all, while the startups become increasingly confident and demanding, the supply side faces an increasing struggle to attract founders and establish their offers in the market.

Since the study observes a global momentum for startups and entrepreneurship, the dynamics of Germany’s ecosystem are directly linked to global trends and developments. While internationalization is a common way for startups to thrive, a governmental point of view also needs to reflect on the competition that may arise between national ecosystems. In this regard, Germany needs to ensure an innovative environment, in which startups find the right

conditions to establish and scale their businesses. If Germany fails, it is likely that the most innovative startups will move to any emerging or established ecosystem that promises better conditions. **The internationalization of support actions that trigger global partnerships and access to foreign markets thus offers opportunities for startups to expand globally and stick to their local ecosystem.**

As another part of this study, the study identified international best practices that may also be applied to enrich the German support system, too. Among others, the study takes a closer look at Paris based startup campus station, Israel's Start-Up Nation Finder and StarTAU, the Chinese TechCode and qiaoLAB incubators, as well as the US-based MassChallenge university program and Plug and Play accelerator.

Recommendations

Against these multifaceted backgrounds, the study calls for action in the following fields:

- Since science still is one of the key sources for innovation, instruments that support entrepreneurship at the nexus of technology exploration and exploitation need further development. While this primarily reveals a governmental challenge, international best practices as well as private approaches to startup support should be taken into account to shape the public instruments. According to our findings, while there is still a need to
- foster the entrepreneurial spirit in academia, networking and access to customers represent the main demands for scientific spin-offs.
- Although many SMEs start to recognize startups in terms of innovation and business partnerships, they often feel uneasy in finding appropriate channels and formats to reach them. Here, SME-focused support structures could help to decrease uncertainty and encourage companies to tap into startup realms.
- An extensive information platform that lists startup support programs would shed light on the increasingly complex support system. While this especially helps startups to find the right instruments, providers can also gain access to potential target groups.
- Qualitative improvement of support structures in terms of startup empowerment, a further verticalization of instruments, the establishment of (international) collaborations, and the application of low-threshold one-stop-shops.
- Strengthening of international attraction of the German startup ecosystem by extending its support and exchange structures beyond the national scope. The development of “reverse-accelerator” programs could help to convince international entrepreneurs to enter the German startup scene.