

BERLIN, 2010–2016 HOW BERLIN ROSE TO BECOME EUROPE'S START-UP HUB



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Inhabitants: 3.46 million (2010); 3.65 million (2016)

The Geographical Context

- Central & booming: Berlin serves as a gateway that connects Eastern and Western Europe. Between 2012 and 2014 a total of 135,000 newly registered “Berliners” settled in the city.
- Recruiting talents more easily: As a member of the European Union (EU), Germany, and especially the start-up ecosystem of Berlin, benefits from access to Europe’s highly educated talent pool.

Relationship with Government

- Grants program by the federal government: To improve the entrepreneurial environment at universities and research institutes, the German Federal Ministry for Economic Affairs and Energy (BMWi) developed the EXIST start-up grants program.
- Start-ups expect a better understanding of specific needs: Only 5.5 percent of German founders attribute good start-up understanding to policy makers. Every fifth start-up expects politicians to reduce regulatory and bureaucratic hurdles, followed by tax reductions and assistance in raising capital.

Anchor Institutions

- Universities with entrepreneurship programs: Technical University of Berlin, Free University of Berlin, Humboldt University of Berlin.
- Established companies: Siemens, Mercedes-Benz, Amazon, Fujitsu, Google, and Microsoft have subsidiaries in Berlin, between them employing 25,000 people.
- Accelerators and incubators: Team Europe, MCube Incubator, Project A Ventures, Rocket Internet, Rheingau Founders, YouIsNow – incubator by Scout24 Portals, Hubraum – incubator and accelerator

by Deutsche Telekom, Metro Accelerator powered by Techstars.

- Start-up campus: Since its opening in 2014, Factory Berlin has brought together such innovative start-ups and mature tech companies as 6Wunderkinder, Soundcloud, Twitter, UBER, and Zendesk. These companies cooperate as business incubators for other new ventures, a model that Factory Berlin calls “organic acceleration.”

Venture Statistics

- Growing number of start-ups and jobs: In the space of four years, start-ups in Berlin have tripled, from 270 start-ups in 2012 to 620 start-ups at the beginning of 2016. The number of employees increased from 6,700 in 2012 to 13,200 in 2016. Berlin-based start-ups were the fifth-largest employer in the city.
- Number one in venture capital investments: In 2015, Berlin start-ups raised around €2.145 billion in venture capital and, subsequently, Berlin became number one in Europe in venture capital investments.
- Becoming a major global player: Berlin moved from position #15 to position #9 on the start-up ecosystem index in the Global Startup Ecosystem Report 2015, and was rated as the ecosystem with the highest growth index.
- Start-up scene brings strong economic growth to Berlin: In 2014, the GDP of Germany’s capital increased by 4.4% compared with 2013, while Germany’s GDP grew by only 1.7%.

Strengths

- Berlin is a melting pot: Berlin is diverse, with people from more than 180 countries, with around 15% not holding German citizenship. Most people in the start-up scene speak English.
- Creativity: A strong creative scene has

resulted in a soaring inflow of national and international tech talent.

- Berlin is affordable: Though rents have increased in the last few years, life is still well affordable compared to other global venture hotspots. In addition, highly qualified talent can be recruited for quite low wages, thus making it easier to set up a start-up team.
- Berlin is attractive to founders: “Startup Heatmap Europe” named Berlin as top city when founders were asked where they would start up if they could begin all over again.

Weaknesses

- Rigid regulatory investment environment: Experts argue that the rigid regulatory investment environment, as well as a weak local exit market, are curbing Berlin’s growth. As a consequence, it remains a challenge to raise late-stage funding in Berlin.
- Bureaucracy: The length of time it takes to process documents due to understaffed public institutions in Berlin and bureaucratic hurdles are seen by founders as obstacles that should be reduced in order to promote start-up growth.

Ecosystem Players

- Rocket Internet: The largest incubator in Berlin, which was founded in 2007 and had a €6.5 billion initial public offering in October 2014, one of the largest in Europe. In 2016, Rocket Internet was valued at €6 billion. Start-ups such as Zalando and HelloFresh have emerged successfully from the incubator.
- Holtzbrinck Ventures: One of the most active and oldest German VCs, it has supported more than 100 companies, such as Delivery Hero, Groupon, and Audible. The VC is also one of the regular investors in Rocket Internet and, in the run to Rocket’s IPO in 2014, it became a direct shareholder.
- Delivery Hero: In 2015, the top VC-financed start-up in Germany (€586 million) was the Berlin-based start-up Delivery Hero.

Strategies Employed

- Increased opportunities to network: Events which help entrepreneurs to connect and network, such as Tech Open Air, Noah, Heureka, Startup Safari, as

well as a variety of meetups, are hosted in Berlin.

- Connecting research and city development: In 2016 the Berlin senate signed an agreement with Fraunhofer Institute for founding the Digital Networking Center of Excellence, where research will be performed on solutions to a variety of practical problems relevant to the City.
- Large funding for early-stage and growth start-ups: In 2015, Holtzbrinck Ventures launched its sixth and largest fund with €285 million and invests between €500,000 and €40 million per company.

Results

- Highest start-up rate in Germany: 121 new businesses were founded per 10,000 residents in Berlin in 2013 (average in Germany: 76).
- Highest self-employment rate: Berlin also has the highest percentage of self-employed people in Germany with 13.6 % in 2013 (average in Germany: 10.7%).
- Berlin is the leading state in IT start-ups: Two-thirds of the invested capital went to start-ups in the information and communications industry, with a focus on Internet and mobile services, software, and e-commerce.

Lessons and Conclusions

- More political support is needed: Though Berlin politicians promoted the start-up scene throughout 2015, making several visits to Tel Aviv and New York City in order to strengthen ties of cooperation, the start-up ecosystem still needs more support by government and policy makers. An organization that is actively supported by the Senate of Berlin to push through initiatives, to define targets for the different parties involved, and to ensure that targets are actually met, is essential for further growth.
- Berlin’s venture ecosystems are maturing: Successful IPOs and exits have helped to build the confidence of investors that Berlin’s start-up ecosystem is gaining in maturity and the balance between ideas and capital is falling into place. The growing interest of Germany’s established corporations in the start-up scene and the influx of venture capital are an indicator that Berlin’s boom is not just temporary.