

Position Paper

Europe, tech it to a scaling level!

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Towards a strategic approach to strengthen the European tech ecosystem

Because it is not just about money, the French and German National Trade Associations, Numeum and Bitkom, join forces to make recommendations to European policymakers to consolidate the European startup and scaleup ecosystem.

How scaleups can drive jobs, growth and innovation for the European economy

The digital sector remains a driving force of the European economy and is resilient in the face of crises.¹ Startups make an important contribution to this strong and further growth. In recent years, record after record has been broken in the ecosystem – more VC capital, more funding rounds, more unicorns. The European startup ecosystem is booming.²

However, current geopolitical situations, such as the Russian invasion of Ukraine, uncertain supply chains and rising inflation and interest rates, have led to first waves of layoffs within the startup scene and have also dampened investment appetites of capital providers.

While, as a result, the startup ecosystem seems to be slowing down, the German and French governments have announced the launch of a European Tech Champions Initiative (ETCI), with the goal of empowering European scaleups as they grow and therefore enabling larger rounds of funding. In total, this initiative is supported by 18 EU member states.

¹ Examples of numbers for the digital sector in France and Germany can be found in [Numeum 2022](#), [Bitkom 2022](#), [France Stratégie & Dares 2022](#).

² [EY 2022](#)

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Startups, particularly in the deeptech sector, are the future of our economy. Through innovative business ideas they change entire industries, support SMEs in their digital transformation, and reduce the CO₂ emissions of industrial companies by increasing efficiency. On a national level, some countries have implemented measures to support these research- and capital-intensive startups in their growth.³

Despite these relevant measures, it is important to think of the startup ecosystem more on an EU rather than just on a national level. Startups are a key factor for the EU's sovereignty and resilience, Europe's long-term international competitiveness, and can make an important contribution to achieving climate goals.



Support the European Greentech Startups to achieve climate goals - Beyond the major principles of the future, European startups are already providing more than 3,000 concrete and innovative solutions to respond to the strategic areas identified in the Green Deal.⁴

Through the ETCI, as well as an ambitious and fast implementation of EU Commission's Innovation Agenda, the necessary measures can be taken to raise the European startup ecosystem to a new level. The goal for the EU's internal market must be to become attractive for scaleups and to offer such good financing conditions that innovative companies no longer consider moving to non-EU countries.

The French digital national trade association Numeum and the German digital association Bitkom with its startup initiative Get Started welcome the fact that the

³ For example, the French Government has outlined a plan for industrial and deeptech startups with its France 2030 strategy. Nearly €6 billion will be invested between 2021 and 2030 to strengthen startups. Among different instruments, Germany has earmarked up to €1 billion to invest in young technology companies in the long term through the DeepTech & Climate Fonds.

⁴ These 3,194 technological solutions are identifiable due to the [Motherbase](#) IA platform, published by [U Change](#).

German and French governments have laid a central cornerstone for a pan-European scaleup project with the ETCl. The €10 billion the initiative is providing must mobilise more private capital to strengthen the European economy, support scaleups on their way to becoming global players, and enable them to carry out larger financing rounds independently of non-EU investors. For an efficient use of the allocated funds, it is essential not to spread the money too thinly, to be clear about the definitions and targets, e. g. sustainability goals, and to enable funds ticket sizes in the amount of €100 million to offer scaleups access to European money. The European Union must have an efficient strategy that aims at focusing on a few champions, whose ETCl funds and targeted measures will indirectly benefit the whole technology ecosystem and thus the European economy.

To strengthen the European startup and scaleup ecosystem in the long term, and in order to make European technological champions emerge, we furthermore need to work on the right framework conditions to enable the emergence of new European tech champions:

- A clear and **homogeneous European legislative and regulatory framework**;
- an environment that **fosters major public and private players to become clients of European disruptive players** at an early stage;
- an **environment suitable for the recruitment of talents**.

Providing a Level-Playing Field – in the market and in legislation

Startups need low-threshold access to sufficiently large markets to become scaleups. In this respect, companies from China or the US have an advantage due to the size of their home market. Around 50 percent of the European startups believe that if European legislation was harmonised, they would have access to a broader market for their products and services. One in three European startup founders have considered starting their business elsewhere due to the regulatory and administrative burdens in Europe.⁵ This is a crucial issue as it represents a loss of €2,000 to €4,000 billion in terms of additional annual value added by 2040 in Europe.⁶ Therefore, to create a level playing-field and to strengthen the European market's competitiveness, it is essential to harmonise European legislation to promote promising, innovative startups. Further, European legislation needs a »startup-check« to ensure that the implementation of new rules guarantees a level playing-field and that measures can also be implemented for startups and young companies without undue effort. The AI Act is one example in which explicit rules are set for the use of a technology. The arising requirements are a challenge for companies in general and in particular for startups, as extensive resources need to be invested, firstly in understanding the regulation, and later in implementing it. Here, it is often particularly difficult for startups to provide the

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⁵ [European Tech Voices Report, Stripe, July 2022](#)

⁶ [McKinsey & Company, July 2022](#)

corresponding resources. To implement this, the creation of an EU-wide startup definition is necessary to tailor framework conditions precisely to their needs.

Startup, scaleup, deeptech... the tactical importance of defining the right terms and targets

Numeum and Bitkom welcome the EU Commission's plan to publish an exploratory report on the definitions of »startups«, »scaleups« and »deeptech« in the first quarter of 2023, leading to a study that will classify corresponding indicators.⁷ Especially regarding the term »deeptech« the indicators should be developed in close exchange with the business community and researchers in order to identify key digital technologies for European sovereignty and to create a practical definition to support young digital companies with innovative business ideas. At European level, it is of **strategic importance to define and label the companies identified according to objective criteria**, since it will prevent the €10 billion ETCl funds from being used in a scattergun approach, and thus financing companies that would not fit into the strategic targeting planned. Such funding would be counterproductive as it would lead to the emergence of several medium-sized European competitors instead of promoting the emergence of a few major technological champions. Criteria for deeptech need to take into account the complex interplay of a technology's economic significance, its disruptive potential, its strategic role in the value chain, the international market, and competitive situation. Proposals that have already been developed at the national level should be reviewed for applicability on a European scale.⁸

Creating the conditions to encourage European deeptech innovations

In order to try out innovations, free space is needed. In some areas and industries, sandboxes can provide a space for technology-intensive startups to test their innovations and can thus support application-oriented and practical product development as well as knowledge transfer. Therefore, **they should be further promoted and the creation of new deeptech sandboxes should additionally be supported beyond national borders**. In their design, the sandboxes should be oriented on the specific characteristics and needs of startups. For example, flexible project duration and constant evaluation, agile working methods, intensive consulting, as well as iterative and lean processes.

⁷ [European Commission, July 2022](#)

⁸ See [Bitkom 2022](#)

Broader approach for greater impact: It's not just money that counts

Access to finance is extremely important to support the growth of promising tech companies. In the meantime and to enable sustainable growth, it is key to facilitate their commercial development: »For a company, €1 of revenue is better than €2 of financing«. Developing the business and recruiting talents has never been a higher priority for startups. In order to enable a long-term and sustainable improvement in the framework conditions, we need to pull other levers in addition to the financial subsidies.

Leveraging public and private procurement at European Level

While financing is important, boosting the turnover of companies is more effective. **To ensure rapid growth essential to their success, startups aim to sign major contracts with large private companies or public decision-makers.** This means, we need to foster preferential ordering from these European players. In addition to a secure source of income, these references give startups credibility in their international sales development. While Europe may have lost the B2C battle to the US and China, it can rely on a mature B2B environment and a dynamic deeptech ecosystem to take a front-row seat in global competition. Succeeding in this challenge will necessarily involve providing the best possible support for their hypergrowth.

At the same time, although the GDPR may have been perceived as a constraint by European companies, this regulation has helped to boost the European ecosystem. In fact, when a large organisation seeks to transform itself digitally, the obligations imposed by the GDPR encourage them to favour European technological solutions - compliant by design - rather than foreign solutions. Similar positive effects could apply if Europe innovates in public and private procurement.

Therefore, the **implementation of a European preference strategy** is crucial to guide European public purchasers in their technological choices.

Additionally, we **need to rethink and cover the risk, or rather the perception of risk, of private procurement.** When a startup is at the contracting stage of a deal worth several million euros with a large group, the contract may not be finalised because the risk (failure, ability to deliver the ramp-up associated with the contract, etc.) perceived by the large group is too high. However, such contracts are a key element in a startup's eventual hyper-growth. In response, the European Union and its Member States should propose a framework that would allow labelled companies to secure their backs. We propose, for instance:

- **Rethink the accounting definition of quasi-equity.** In the accounting analysis, multi-year contracts with large groups are not taken into account. For software vendors, the full asset value of their product is not taken into account either.

To enable sustainable growth, it is key to facilitate startups' commercial development.

- **Create incentives to encourage private companies to contract with startups.**
Tax incentives could invite Member States to implement a new form of tax credit or tax rebate.
- **Take over insurance contracts of private deals (or the quasi-equity financing that would accompany these contracts) above a certain amount.** In order to secure large private startups contracts and sustain their growth, Europe and/or the Member States could play a key role by setting up a form of »State Guaranteed Contract« via, for example:
 - Using part of the €10 billion ETIC or identifying another envelope to insure contracts worth several million euros;
 - By mobilising the European Investment Bank and/or national public investment banks.

This should be **eligible if startups meet the forthcoming definition criteria of the European Commission** in order to be labelled and if their solutions are mainly based on European technology (hosting, servers, etc.). Accordingly, Europe would be betting on a few up-and-coming technological leaders but the trickle-down effect of the measure would benefit the entire ecosystem by enhancing the European value chain.



5%

of European VC deals are
with female-only teams
([PitchBook 2022](#)).

Strengthening diversity across Europe's scaleup scene

»United in diversity« is the motto of the European Union. This diversity must be further strengthened in the startup ecosystem and thought of in all its dimensions. In 2021 the percentage of European VC deals with mixed teams was below 20 percent and around 5 percent as far as female-only teams are concerned.⁹ **The goal of the ETCI funds must be to close this gap and to give equal consideration to female startup founders in VC financing.** The introduction of gender quotas in selection committees for investors in the framework of the European funds to be created via the European Tech Champions Initiative is a central keystone. Therefore, at least 30 percent of the management, partners and other senior positions in the ETCI team should be held by women. ETCI funds should not be invested in VCs if they do not have women in the relevant positions. In the long term, this quota target must be even more ambitious. **VCS must also commit themselves to public reporting.** This should take into account criteria such as the proportion of female founders in the portfolio or the company's own investment team. This reporting can also serve as an investment criterion for limited partners.

In addition, the **EU-Commission could initiate a European communication campaign in the Member States** to get students, especially girls, excited about digital technologies and combat gender stereotypes. To succeed here, the Member States need to be encouraged to train and support supervisors and teachers in the professions and opportunities in the digital sector and in the challenges of gender equality. Furthermore, initiatives aiming to support role models by promoting exchanges between

⁹ [The European VC Female Founders Dashboard | PitchBook](#)

women working in the digital sector and young girls, as well as collaboration between networks of women in business, particularly at European level, should be supported.

To conclude, it would also be interesting for European and national institutions to understand diversity issues beyond gender (different professional/training backgrounds, international experience, etc.).

Tackling the talent shortage by stimulating an attractive European working environment

Additionally, we need to further harmonise the European labour market and make it more attractive. In Germany alone, around 96,000 positions for IT specialists were unfilled in 2021 - and the demand is rising.¹⁰ In order to meet this demand in the long term, the European Commission must push ahead with location marketing, promote the EU as the global number one location for attractive working conditions and must make immigration from non-EU countries to Europe easier and more inviting. This requires EU-wide harmonisation of employee stock options to enable participation in companies operating in multiple countries. Preferably, EU-wide harmonisation should also be achieved in the areas of cost obligations, administrative processes, taxation regulations and other requirements for participation models.

Also, legislation must be harmonised to the extent that in the age of New Work it is not a hurdle for a company to hire employees remotely in other European countries without facing tax or social security challenges. The COVID-19 crisis has accelerated the digital transformation of administration, society and economy, but it has also changed people's relationship to work. Remote work has become widely popular and is now a determining factor for employees regarding their quality of working life. This new situation should encourage the creation of a European working environment:

- In the short term, a **central information platform** is needed to be set up, where founders can **access standard employment contracts, a taxation overview and similar relevant information for each member state**;
- Create a **European employment contract** for technology startups identified as strategic. Such a single contract would provide agility for companies to recruit and would allow them to meet employees' expectations in terms of mobility. The European environment would then be more attractive for digital companies identified as strategic for our economy.

Conditions for obtaining the contract: Although it would be interesting to make this contract available to all technology companies, Europe could start an experiment for the benefit of startups that meet the European Commission's forthcoming definition criteria and whose technologies are mainly based on European solutions.

¹⁰ [IT-Fachkräftelücke wird größer: 96.000 offene Jobs | Bitkom e.V.](#)

Bitkom represents more than 2,000 companies of the digital economy, including 1,900 direct members. Through IT- and communication services only, our members generate a domestic turnover of 190 billion Euros per year, including 50 billion Euros in exports. Members of Bitkom employ more than 2 million people in Germany. Among the members are 1,000 small and medium-sized businesses, over 500 startups and nearly all global players. They offer a wide range of software technologies, IT-services, and telecommunications or internet services, produce hardware and consumer electronics, operate in the sectors of digital media or are in other ways affiliated to the digital economy. 80 percent of the companies' headquarters are located in Germany with an additional 8 percent each in the EU and the USA, as well as 4 percent in other regions. Bitkom supports the digital transformation of the German economy and advocates a broad participation in the digital progression of society. The aim is to establish Germany as globally leading location of the digital economy.

Numeum is the largest digital trade association in France. We represent more than 2,300 companies of all sizes, from high-growth tech start-ups to the largest groups operating in the digital sector. It includes software providers, digital services companies, platforms, engineering and technology consulting firms, data aggregators and innovative companies (<https://numeum.fr/>).