

Helsinki's Startup Ecosystem: Entering the Globalization Phase with Key Assets

Dane Stangler, Startup Genome

Startups that succeed in building and scaling a globally-leading product can help propel the economy of an entire region because they generate ripples that create jobs and innovations and value far beyond their own work. This is what economists call a multiplier effect. Across the world over the past few decades, tech startups have helped transform many places into prosperous regions. Before Microsoft and then Amazon, Seattle was an economic backwater, losing jobs and people at an alarming rate. The East End of London has been completely made over by the success of tech startups. The story of Chinese cities is in large part the story of startups like Alibaba and Tencent.

Helsinki has experienced this type of transformation before with the rise of Nokia beginning in the 1990s, and the region has also been at the forefront of the information technology revolution with the development and growth of Linux. Now, Helsinki stands on the cusp of another transformation—despite its relatively small size, the city has developed a strong startup ecosystem. It has enjoyed successes such as Rovio and the acquisition of startups such as Supercell and Rightware by Chinese multinationals. It is also home to Slush, which in less than a decade has become one of the leading technology events in the world.

Based on these developments as well as our own assessment of nine performance factors and dozens of sub-factors, Helsinki has entered the second phase in our Ecosystem Lifecycle Model. It has moved through the Activation phase and into the Globalization phase. (See Figure 1.) This means that Helsinki has successfully activated local resources and started to build a strong network of global connections. The ecosystem over-performs on several of our metrics, yet resource gaps remain. At each phase of the Ecosystem Lifecycle, new challenges and gaps arise even as an ecosystem addresses and meets earlier needs.¹

¹ For a full explanation of the Ecosystem Lifecycle Model, please see the 2017 Global Startup Ecosystem Report, at <https://startupgenome.com/report2017>.

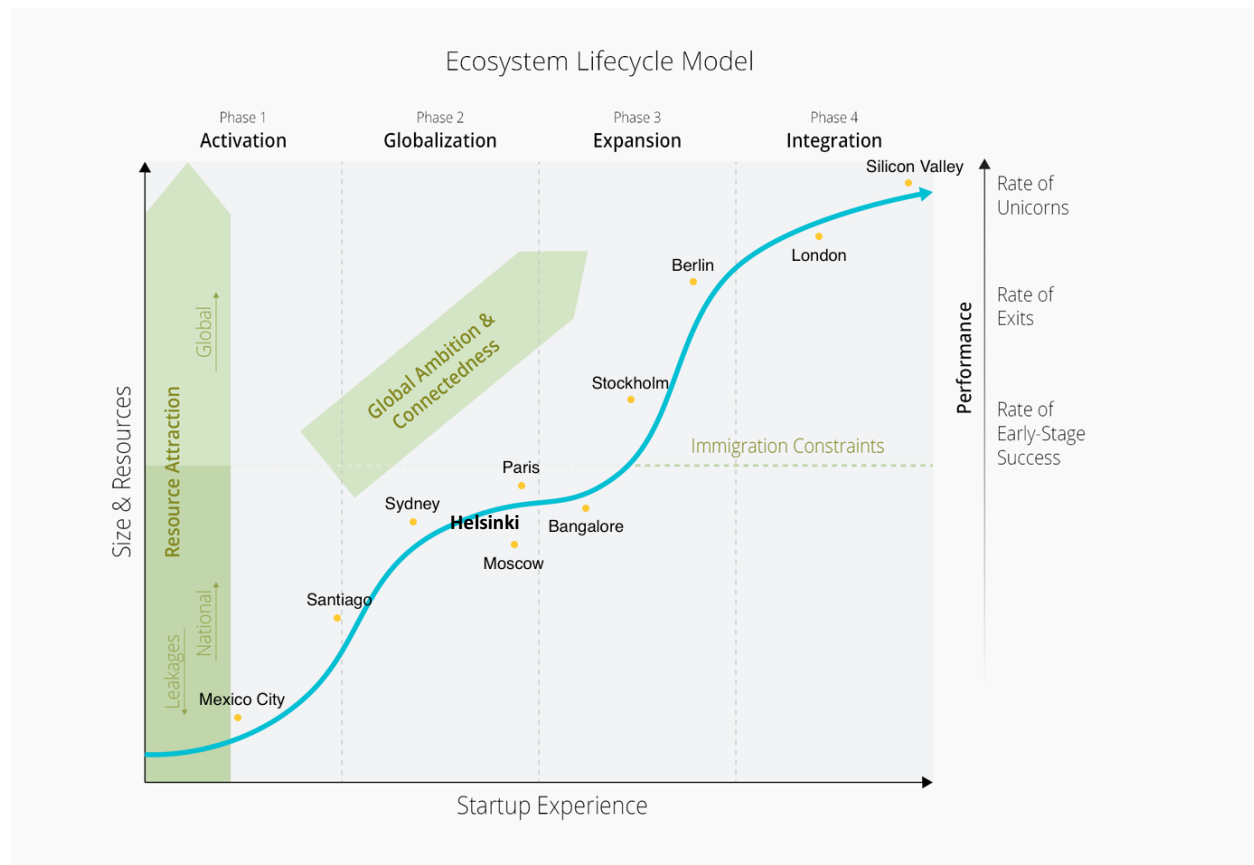


Figure 1. Ecosystem Lifecycle Model.

In general, ecosystem resources and performance increase with size, creating broader effects on job creation, innovation, and economic value. The bigger the ecosystem, the larger the ripple effects. This reinforces further growth for startups in that ecosystem.

A startup ecosystem, then, should strive to grow bigger, with more startups, more resources drawn from elsewhere, more growth, and more exits. In the Activation and Globalization phases of the Lifecycle, ecosystems still rely on organic resources—people and funding mostly from the immediate region. To accelerate growth and move to the Expansion and Integration phases, an ecosystem needs to attract inorganic resources—founders and early-stage employees need to move from elsewhere, and more capital must be drawn in from other cities and countries.

A key risk for Activation and Globalization phase ecosystems is that they will lose resources through leakage—ambitious entrepreneurs and talented employees will depart to ecosystems that offer better resources.

At the beginning of the Globalization phase, Helsinki stands at a potential steep inflection point: it enjoys a high density of startups and a good degree of Global Connectedness, tapping into the global circulation of entrepreneurs and ideas. This has helped Helsinki founders develop a strong level of ambition and global know-how. Thanks to recent significant exits and another potential

June 2017

one in the future (either acquisition or IPO for Rovio) and if other ones follow in the next year or two, Global Resource Attraction can be expected to grow.

Helsinki needs more exits, and more exits of significant size. These are the next frontier for the ecosystem. An ecosystem grows larger through more, and more valuable, exits. These are the triggers for increasing resource attraction and growing in size. In the global distribution of ecosystem value, the small size of Helsinki is evident (see Figure 2).

Global Distribution of Ecosystem Value (\$B)

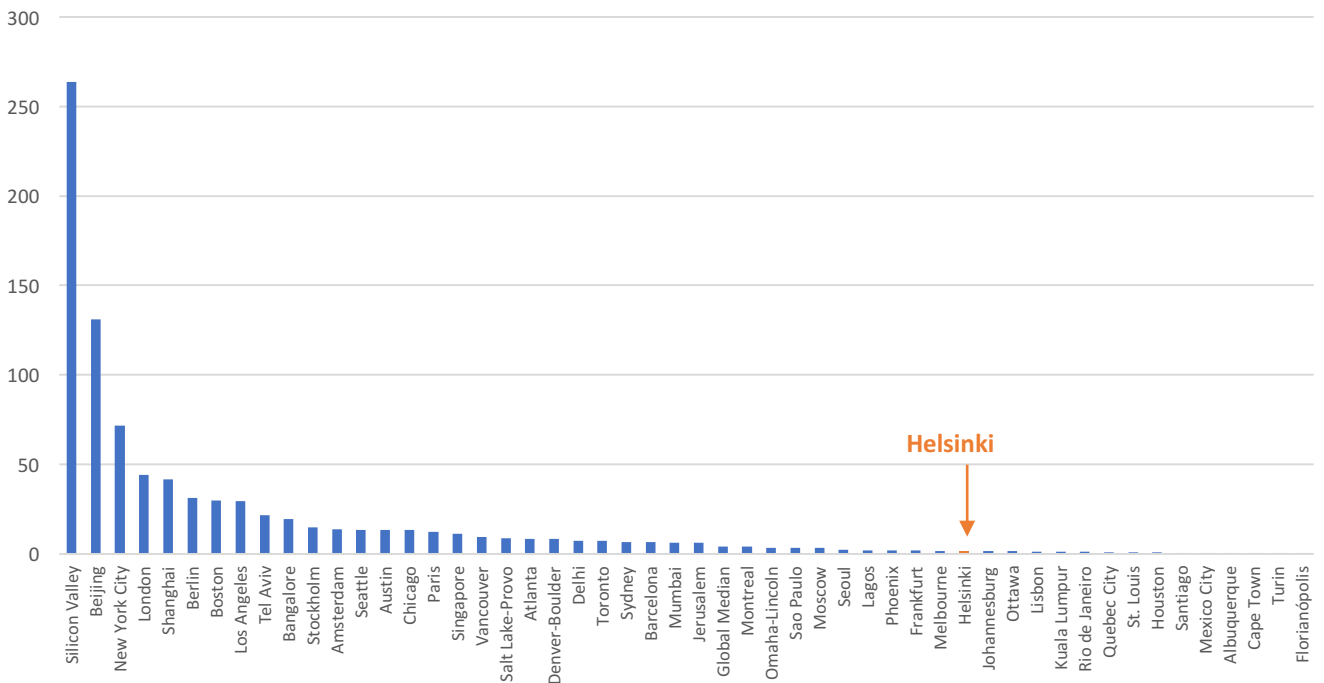


Figure 2.

Despite the recent successes of Supercell and Rightware, moreover, Helsinki lags on Exit Value and Exit Value Growth (see Figure 3).

Helsinki is Smaller Ecosystem, But Not Growing as Fast in Exit Value

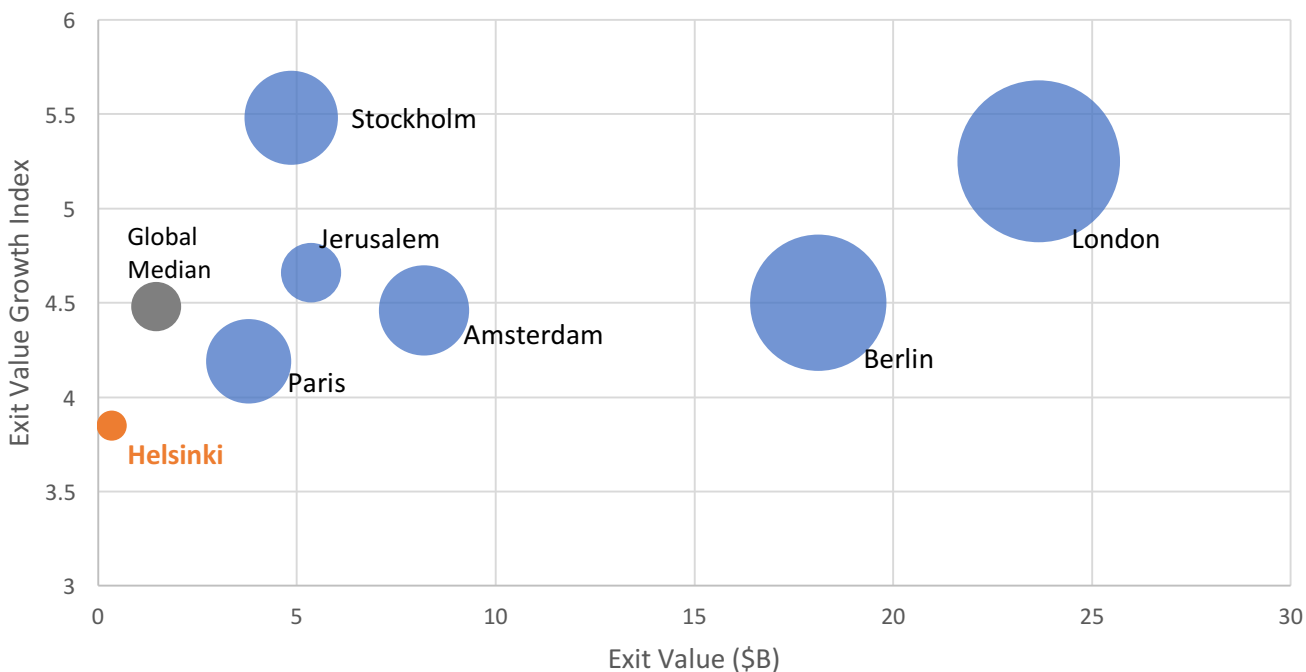


Figure 3. Size of bubbles corresponds to ecosystem value (\$B).

What we see in Figure 3 is the effect of size in the evolution of startup ecosystems—a smaller size does not necessarily mean a faster growth rate. As ecosystems grow larger and move through the later phases, they generate more exits, turn global connections into know-how, and attract more resources, feeding growth in startup output. When it comes to startup ecosystems, bigger is better.

To generate more exits and sustain its momentum, the Helsinki ecosystem should address the following issues:

- Double the number of early-stage startups;
- Increase resources at least as fast, especially early-stage funding but also talent;
- Attract global know-how by multiplying global connections among different types of stakeholders.

Increase Startup Output

Helsinki is one of the smallest ecosystems assessed in the Global Startup Ecosystem Report with 600 tech startups. Yet, due to its small population, Helsinki has achieved a higher startup density than the average Globalization phase ecosystems.

Helsinki Has Higher Startup Density than Globalization Phase Ecosystems

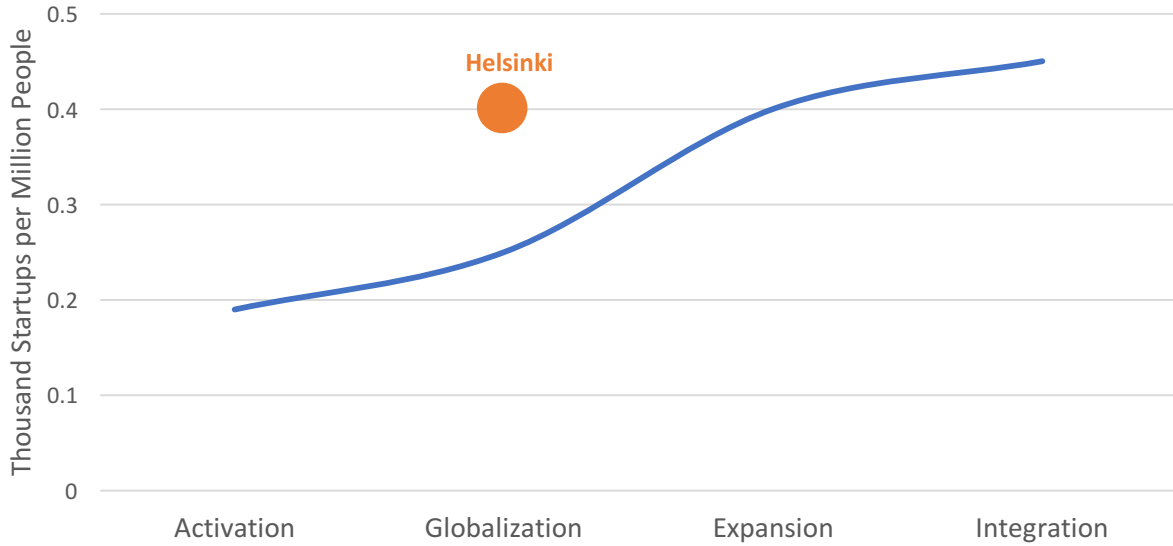


Figure 4. Helsinki is shown as the red dot, relative to other Globalization phase ecosystems.

Helsinki Has Lower Startup Output than Globalization Phase Ecosystems

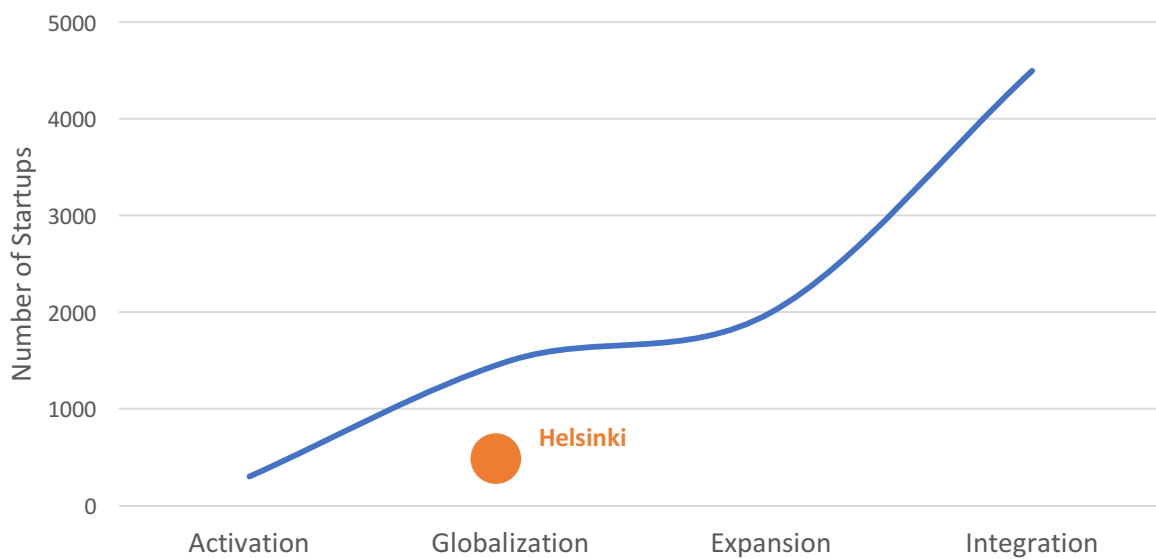


Figure 5. Helsinki is shown as the red dot, relative to other Globalization phase ecosystems.

To achieve a significantly higher level of performance at producing a stream of scale-ups that will generate Global Resource Attraction, Helsinki probably needs to double its number of early-stage tech startups. This will not be easy, and likely cannot be done only by drawing on organic resources.

Increase Early-Stage Funding to Startups

Along with increasing output, Helsinki needs to raise the amount of funding for early-stage startups. While the ecosystem has a relatively high level of funding per startup, this is due to its small number of startups. As it works to double output, funding will need to grow very rapidly, which is not currently the case—its growth in early-stage funding currently lags behind the global median. (See Figures 5 and 6.)

Helsinki Has Relatively High Level of Early-Stage Funding per Startup ...

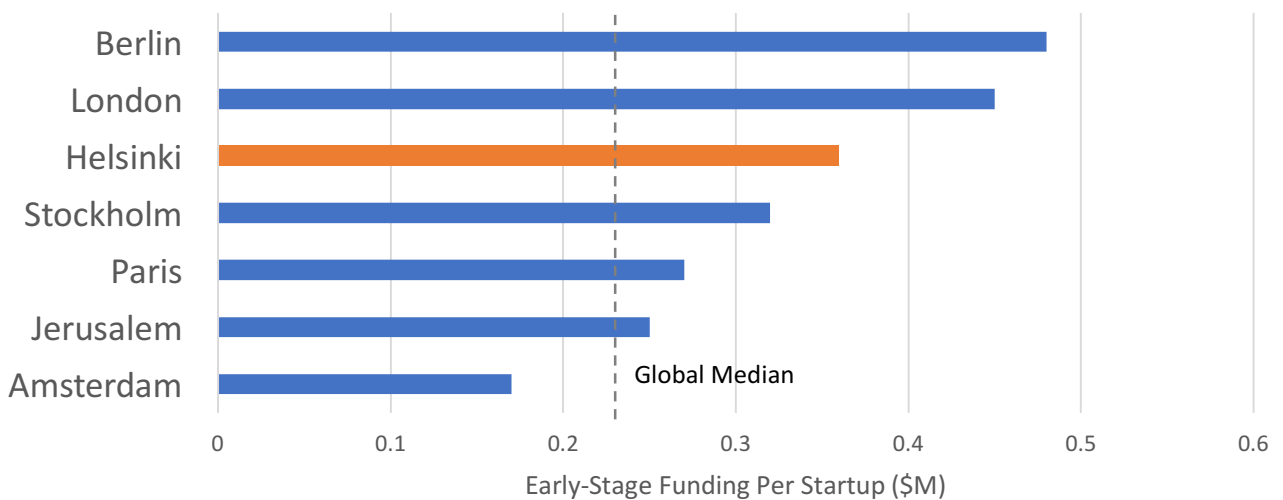


Figure 5.

... But Growth in Early-Stage Funding is Below Global Median

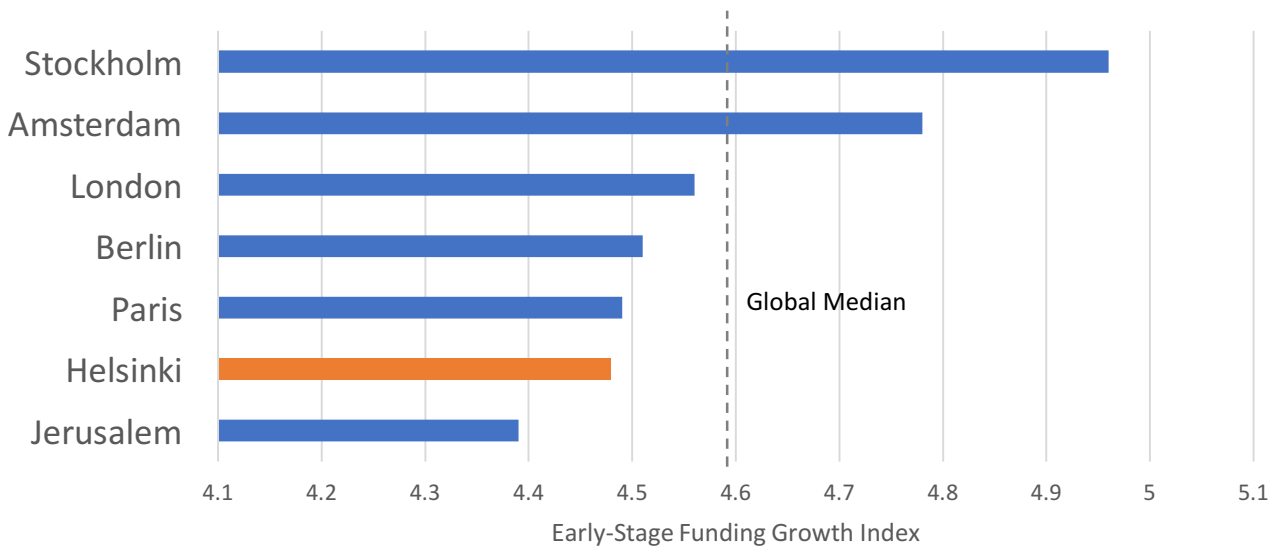


Figure 6.

Build on Global Connectedness to Increase Resource Attraction

Global Connectedness is not about flights between airports or the extent of LinkedIn networks. Early-stage startups draw on local talent and funding to get started, but to develop globally-leading products and services, they need exposure and connection to the global fabric of ideas, people and organizations among startup ecosystems. They need to absorb global know-how about innovation.

The types of connections that foster this exposure and absorption are significant relationships between people: between founders, founders and investors, and talented employees. Particularly important are relationships developed between entrepreneurs in smaller ecosystems and top-tier ecosystems. These connections increase global know-how among founders and help startups succeed on global markets.

Startups in Helsinki enjoy a high level of Global Connectedness to top tier ecosystems and, as a result, show extraordinary Global Market Reach for a small ecosystem. Both factors are well-correlated with startup and ecosystem performance.

Helsinki Fares Well on Global Connectedness and Market Reach

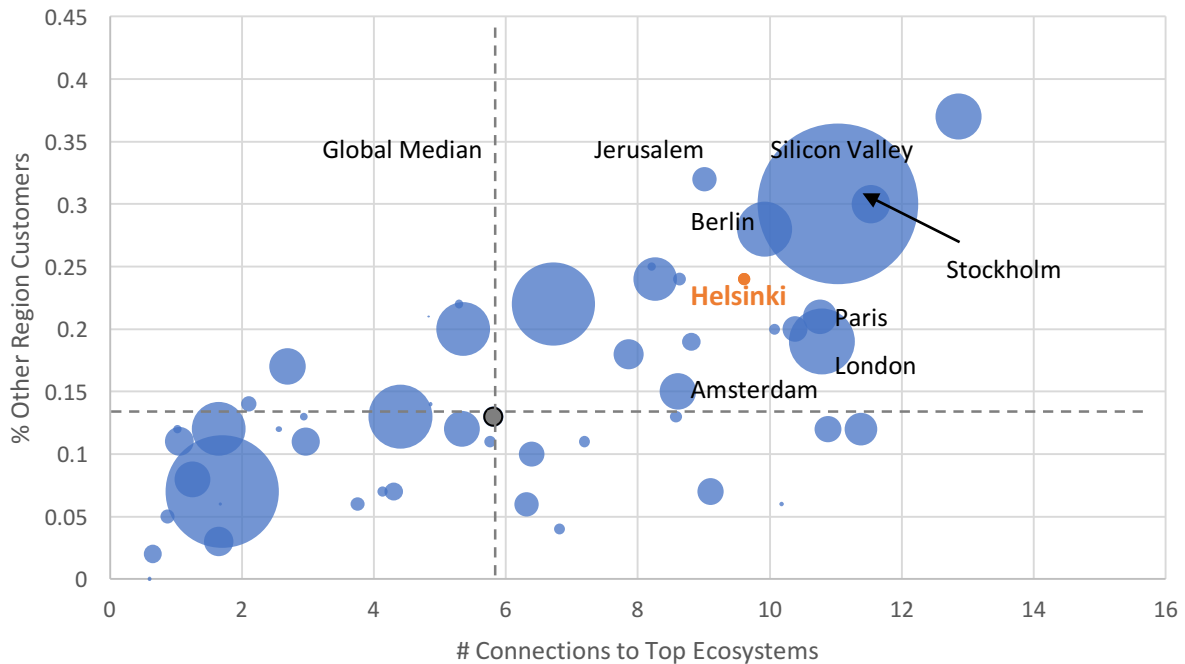


Figure 7. Size of bubbles is ecosystem value.

The Global Connectedness of Helsinki startups has exposed them to leading practices in building startups and raised the level of Startup Experience in the ecosystem. Startups in Helsinki, for example, have among the highest rates of granting equity to advisors and offering stock options to employees—ranking 3rd and 7th in the world, respectively. Likewise, global connectedness has generated high levels of founder ambition in going global: nearly half of Helsinki startups report that they are developing products for global markets (a rank of 4th overall), and the ecosystem ranks in the top ten for other measures of go-global strategy. This type of know-how is a key input for startup growth, and is a strong asset for Helsinki.

Now, Helsinki needs to build on this global know-how to produce a stream of billion-dollar exits and unicorns that will fuel Global Resource Attraction—where the ecosystem draws in people and funding from other countries. For an ecosystem of its size, Helsinki has not done badly in attracting entrepreneurs from other parts of the world. Relative to its size, Helsinki outperforms the global median in terms of the share of entrepreneurs moving into the ecosystem. In absolute terms, however, Helsinki needs to increase resource attraction (see Figure 8).

Helsinki Needs to Attract More Entrepreneurs

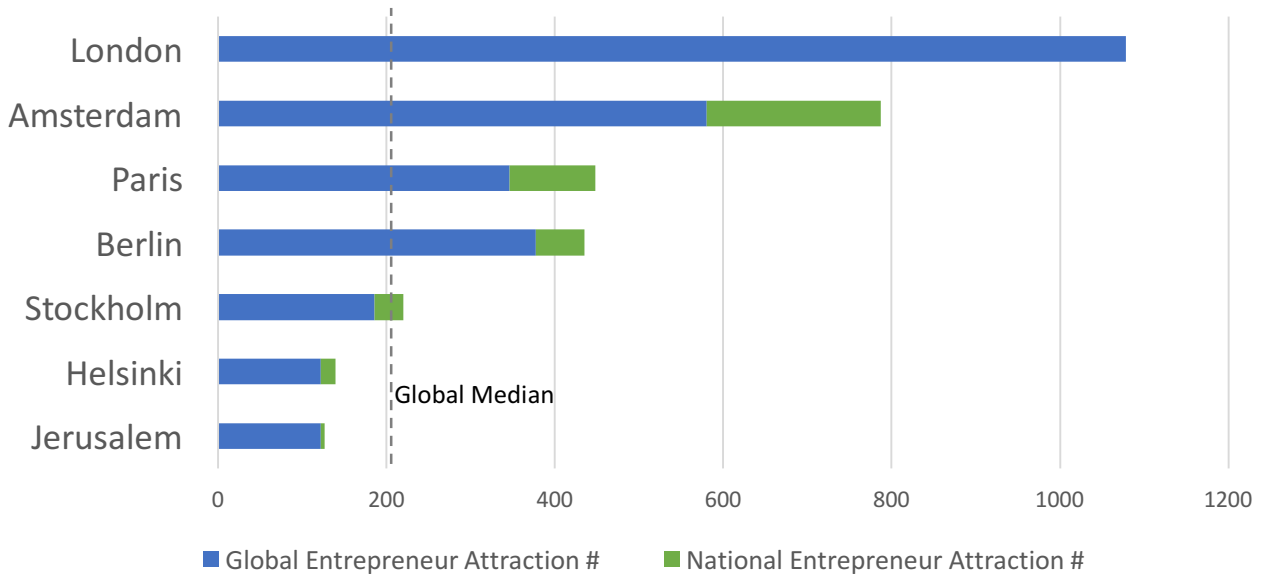


Figure 8.

As it attempts to continue growing through the Globalization phase and into the Expansion phase, absolute numbers will matter more for Helsinki than relative percentages. Here, there is considerable room for growth. Helsinki has a high share of foreign engineers working in its startups—as reported in our survey, nearly one-quarter of engineers in Helsinki were born elsewhere. This may reflect streamlined visa processes: Helsinki startups have a healthy visa success rate and, compared to other ecosystems, it does not take as long to obtain a visa. Attracting founders and their existing startups, however, is more difficult. Global startup attraction is low for Helsinki, and as a result the presence of immigrant founders is relatively low (see Figure 9).

Helsinki Can Attract More Immigrant Founders

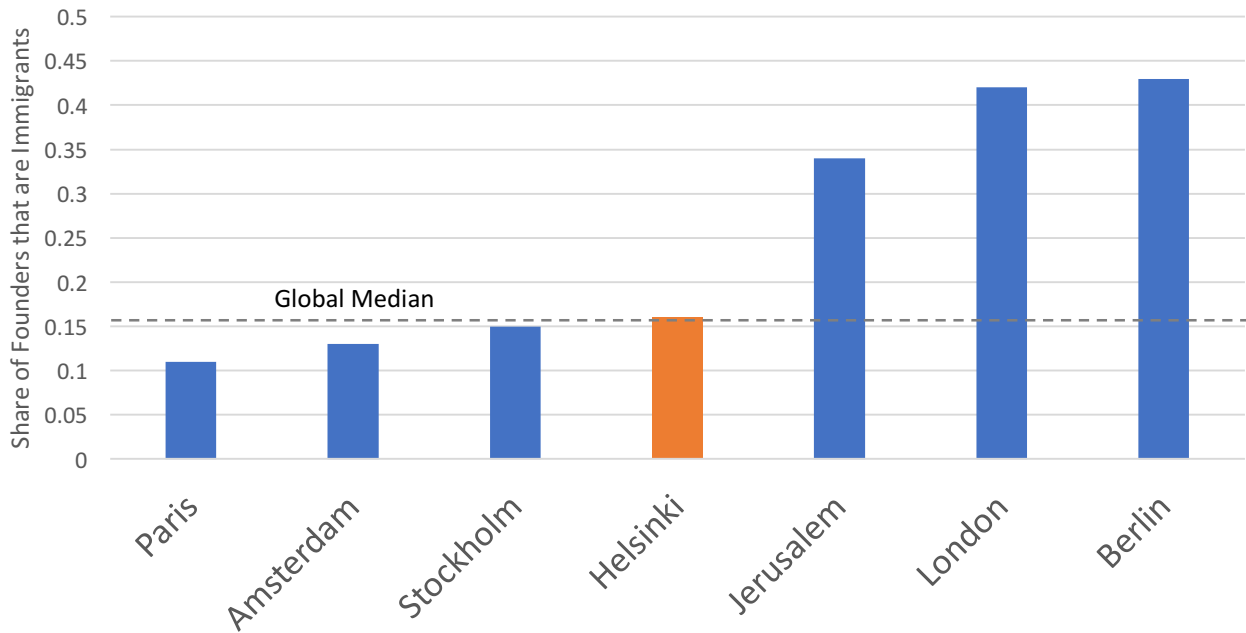


Figure 9.

Additionally, Helsinki appears to suffer from a lack of certain types of startup experience: the percentage of experienced engineers available to startups and the share of serial founders are both below the global median.

If it does not increase the availability of funding and experienced talent, Helsinki faces the risk of startup leakage—a surprisingly high share of startups report an intent to leave the region (see Figure 10), usually indicating the perception among founders that the ecosystem lacks the resources required to succeed.

One-Quarter of Helsinki Startups Say They Intend to Leave

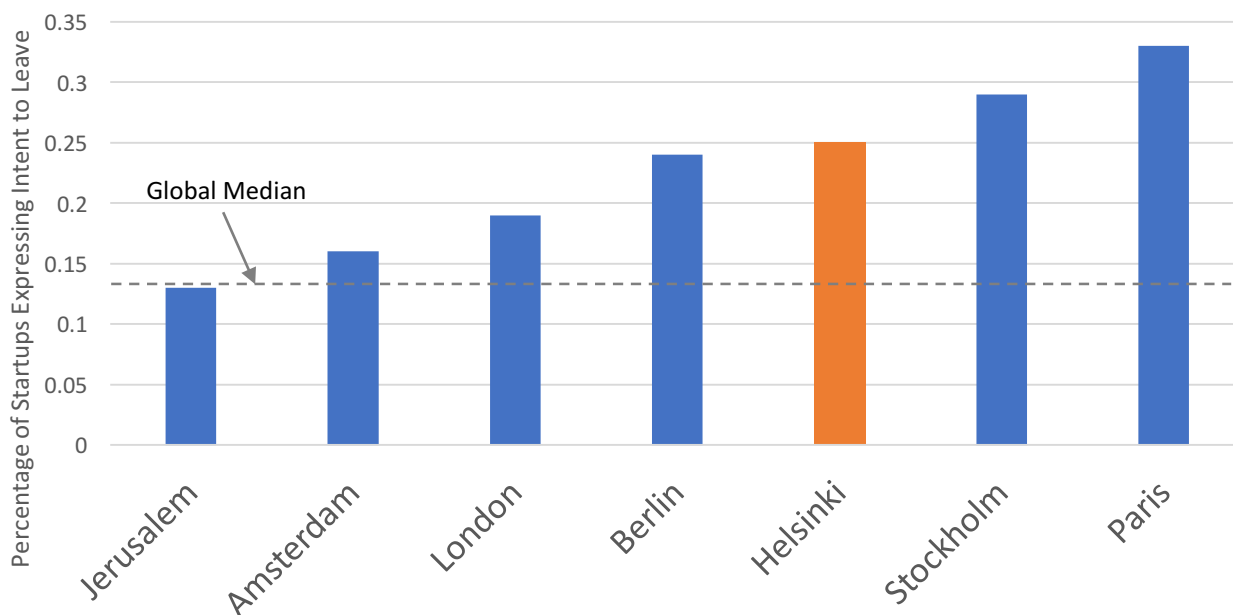


Figure 10.

This is indirectly related to the relatively low level of large exits in Helsinki over the past decade. Indeed, despite some notable successes, and the pending potential acquisition or IPO of Rovio, Helsinki needs more and larger exits to “Trigger” Global Resource Attraction and grow faster. Without those exits, resources will leave—not enter—the Helsinki ecosystem and its growth will stall.

Helsinki Poised for Growth

In some ways the Helsinki startup ecosystem punches well above its weight—despite a small size overall, Helsinki startups reach global markets and have built strong connections with top-tier ecosystems. Startup density is high, and Helsinki enjoys high global ranks on a handful of key metrics.

To sustain momentum and grow in size, the Helsinki ecosystem needs to continue to invest aggressively in creating more startups, growing its early-stage capital and talent pool. Combined with its high Global Connectedness and know-how, these will help increase the production of billion-dollar exits and unicorns that are the Trigger of Global Resource Attraction that it needs to grow to the next level of ecosystem size and performance.