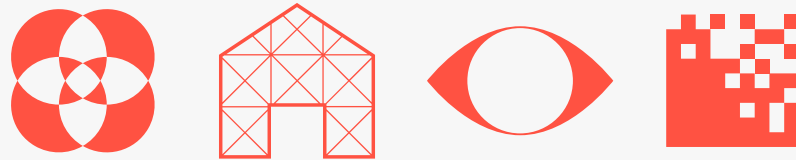


# Europe's start-up ecosystem: Heating up, but still facing challenges\*



*\*This article was a collaborative effort by Kim Baroudy, Jonatan Janmark, Abhi Satyavarapu, Tobias Strålin, and Zeno Ziemke, representing views from McKinsey's Technology, Media, and Telecommunications Practice.*

# Problem and Methodology

- Europe's start-up ecosystem has seen **a surge in the number of unicorns** and the **pace** at which they are created.
- **European start-ups still lag** in achieving successful late-stage outcomes when compared with other start-up ecosystems.
- A **cohort analysis** has been conducted that examines Europe, India, and the United States.
- **Trends and challenges** affecting those ecosystems have been assessed
- **Start-up founders and investors** have been interviewed.
- The analysis of Europe's start-up ecosystem illustrates the **ongoing underlying issues that entrepreneurs face**

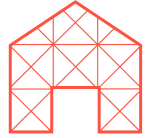
# Results

- Europe's start-ups are still **fewer in number, raise less money, and have a lower likelihood of success**
  - Europe produces about 36 percent of global start-ups but only about 14 percent of the world's unicorns.
  - European start-ups have an approximately 30 percent lower likelihood of success relative to start-ups in the United States.
  - US and Indian start-ups have greater success than European start-ups at progressing through funding rounds.
- **Being less successful** at progressing through this funnel, however, **doesn't mean that Europe's start-ups are outright failures.**
  - European start-ups don't fail any more frequently than US start-ups do, but they tend not to advance as often.



# What holds Europe's start-ups back?

1. The value pool of the European Union (plus the United Kingdom) is similar in size to that of the United States but is highly fragmented among 28 heterogeneous countries with different languages and cultures.
2. European start-ups have historically had greater difficulty raising late-stage rounds of funding.
3. European start-ups face much greater pressure to perform, and to do so earlier, than start-ups in the United States.
4. Attracting the best talent can be difficult
5. Start-ups in Europe are less concentrated around top hubs compared with those in the United States



# How to overcome the challenges?

1. **Harmonization** (e.g., regulatory and legal frameworks), and active **policy making**.
2. **Leveraging Europe's assets**, which include its public sector and its relative strength in the B2B arena, is critical to growing the start-up ecosystem.
3. Europe could look at **how to support the culture and capital** needed to further grow its start-up ecosystem.



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