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European Tech Voices

July 2022

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Background and methodology

This report explores current perceptions within the European tech ecosystem, the challenges fast-growing internet companies are facing, and the role of regulation and policy in both restricting and enabling growth and innovation for online businesses across Europe and the UK.

In the last decade, Europe has undergone a technological revolution that takes advantage of the continent's strong foundations and has been driven largely by the ingenuity of European innovators. Europe's incredible depth of talent (it has 20% more software engineers than the US), world-leading universities, and record levels of funding, have seen the startup ecosystem go from strength to strength.

As we move further into 2022, macroeconomic conditions are challenging, casting more uncertainty on the growth trajectory of European tech. Amid global market turbulence it's more important than ever for the European economy to remove obstacles and friction so that these businesses can do more with less.

For European startups to come out of this period stronger than before, and for the ecosystem to be set up for future success, it is crucial to understand how public policy and the legislative and regulatory environment can hamper or bolster growth and innovation. Just this week, the European Commission acknowledged the need for policy solutions to help European startups compete globally when it published its New European Innovation Agenda and roadmap for startup growth.

In Europe, close to one million businesses use Stripe, and many of them are Europe's fastest growing companies: One in two new unicorns is built on Stripe. To understand the perspectives of this key group, the global market research consultancy B2B International and Stripe have heard the views of almost 200 founders and policy and legal leads from a diverse range of sectors across the European Union and the UK.

The research consisted of one-hour, in-depth interviews carried out in January and February 2022 by B2B International with Stripe users representing startups and scaleups across different industries—including Kry, Alma, TicketSwap, Klub, Doctolib, Café, and Wollit—to understand their perspectives and attitudes in detail. This informed the development of a quantitative questionnaire used to validate and measure the key findings.

> The survey was conducted online between March and April 2022, and was completed by Stripe users from the UK, France, Spain, Ireland, Germany, Austria, Switzerland, Italy, the Baltics, Benelux, Scandinavia, Greece, and Eastern Europe.

Executive summary

Startups continue to think that Europe has a lot to offer, but don't believe the legislative environment is currently tailored to support Europe's fastest growing internet businesses. To strengthen the tech ecosystem, startups want lawmakers to prioritize policies that reduce "friction," alongside clear, easy-to-implement regulatory frameworks to ease the burden on their limited resources. Key findings include:

1. **Europe's most exciting startups are bullish on what Europe has to offer, from great people with diverse skills, to proximity to different markets**

   - 73% believe that the depth and availability of talent, and the level of education in Europe, are advantages compared to other markets.

   - 56% consider the geographical proximity of markets as an advantage, enabling startups to operate across borders and experiment with different products and services more easily.

2. **Unnecessary friction is making it hard for European startups to maximize growth opportunities and is putting a strain on already-stretched resources**

   - 53% say that time spent adhering to compliance processes is the greatest threat to their business.

   - 1 in 3 considered starting their business elsewhere due to the scale of the regulatory and compliance burden in Europe.

   - While many appreciate the idea of harmonized regulations across Europe (34% agree that Europe-wide regulations provide helpful rules of the road), in practice, legislation is not consistent across countries.

   - 50% believe that if EU legislation were harmonized, they would be able to sell into more markets.

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3. Startups believe that policymaking is geared toward incumbents that have more time and resources at their disposal

- A minority of startups (12%) believe that policymakers understand the realities they're facing, and most (83%) believe that structures are designed for large, established businesses.

- Startups are not engaged with policymakers and are not typically voicing their concerns (61% are disengaged).

- Rather than calling for a shake-up in regulation, startups' needs appear to be linked to saving time and resources (34% cite digital-first processes being the practice that matters most).

4. Startup success in the Baltics and in European fintech shows that smart public policy, which reduces friction and delivers on digital-first commitments, can boost the ecosystem

- The Baltic states are seen to have the most innovative approach to regulation. E-government services and overall strong digital policies are driving this perception, but the Baltics are also cited as having fewer bureaucratic and regulatory hurdles.

- European fintech has benefited from a regulatory approach that fosters competition and innovation. Nearly three-quarters (70%) see either SEPA or PSD2 as a big advancement.

- 62% believe that open banking in payments is an example of smart regulation that they would like to see replicated elsewhere.

What Europe brings to the table

Europe has established itself as a credible tech leader, with an <u>accelerated growth rate of unicorns</u> of 400% in 2020 versus 124% in the US. While conditions have recently shifted, and the macroeconomic environment has become more challenging, Europe's most exciting startups recognize the clear advantage that the continent has to offer.

Many of the startups who participated in the research spoke about a positive shift in their perceptions. And, most are optimistic for the future, particularly the development of a smoother and easier dynamic environment that nurtures talent and increases digitalization.

"For a year now, we have seen the dynamics of the French ecosystem. We've seen a record number of unicorns. The French ecosystem is starting to structure itself and the government is getting organized around these startups." - Healthtech, France

" I am not a first-time founder. Now it is wonderful. There are much more people involved, much more going on, better access to capital, better access to talent, more service providers, it's easier to get up and running, a bigger audience. We have taken on a lot of the US ways of working when it comes to raising investment, so it is a much slicker, easier process now than it was 10 or 15 years ago." - Credit Builder, UK

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Startups recognize two notable advantages in Europe compared to other markets, including:

1 The level of education and the depth and availability of talent—both in terms of building great teams and the subsequent impact on investment.

2 The geographical proximity of different markets, with the ease of exports and imports being highlighted as a clear benefit.

Harmonized and clear regulations are seen as a strength, in theory, bringing commonality between countries that enables startups to replicate business models in other countries. However, in practice, startups often face challenges adapting to different regulations between individual countries.

Other advantages of the European startup landscape were recognized to a lesser extent. These advantages included the access to capital, collaboration, and an accelerated rate of innovation.

"Ultimately, talent attracts investors because it creates quality businesses." - Crypto, France

"In fact, intra-European business is very easy and simple to do. Due to the proximity, it is very easy and convenient for a German company to export its products on a small scale, for example to the Netherlands or Austria." - Fintech, France

"Being in the EU and having access to the 27 member states is quite an advantage—your home base is big. You can try out your services in different countries, and try out new things in different markets, so I think that is an advantage." - Marketplace, the Netherlands

" *Europe is not yet a single market so you must adapt to different regulations. To expand to other European countries, we have to overcome many challenges." - Hospitality, France*

Identifying the obstacles facing startups

Unnecessary friction is making it hard for Europe's most ambitious companies to fully maximize opportunity and is putting a strain on already-stretched resources.

One third of startups

considered starting their business elsewhere due to the scale of the regulatory burden and compliance issues.

In fact, 25% of respondents said they considered starting their business in the US rather than Europe. Thirty percent believe the US has an innovative approach to regulation with fewer regulatory and bureaucratic hurdles.

It is the time-consuming and complex procedures, and outdated regulatory practices that are the problem, not restrictions on particular business models. For smaller companies just getting started, without the benefit of a large legal or finance department, and with increasingly limited resources, it can be difficult to understand new regulations and incredibly time consuming to comply with them.

Over half (53%) say time spent adhering to compliance processes is the greatest threat to their business. This is getting worse: Over three-quarters (79%) feel that the time spent on compliance has increased:

"[We need] legislation aimed at smaller companies that do not have an entire legal department. Clear steps and easy implementation are essential to grow and adapt quickly." - IT, the Netherlands

"We all waste a lot of time in useless activities that do not benefit the community." - Ecommerce, Italy

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Here are the challenges with regulation that respondents brought up when asked openly:

53%

Time adhering to compliance processes and regulation

47%

Fit for large companies, but not startups

35%

Outdated and not suitable for digital economies

34%

Resources required to build legal, policy, and compliance teams

31%

Uncertainty about new regulations and their impact

"It's regulation that was designed for physical systems being applied to digital services, and that is where regulation, understandably, hasn't kept up and we need to change it." - Healthtech, UK

Intracountry fragmentation is also a barrier: 50% say they would sell into more markets if regulation were harmonized.

❝ *In healthcare, for example, it is about frameworks for better public sector procurement, boring stuff, but really essential. For example, data portability, but it's harder to get involved in those types of discussions." - Healthtech, UK*

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Startups are frustrated with the way policy is implemented and enforced, as well as the processes by which they have to comply, rather than by specific pieces of regulation or policy prohibiting growth.

"I think we have to ensure that we have as few barriers to market entry as possible, and regulation is often used to set these barriers, which of course leads to innovation being hindered. But of course, it's a fine line because there are no barriers to entry without a reason. You have to keep the balance better in the future, otherwise we will end up turning off the innovation engine." - Insurtech, Germany

"There are many regulatory differences between European countries. For example, we are obliged to respect certain regulations as soon as we exceed a period of two months in Belgium, whereas this is three months in almost all other European countries." - BNPL, France

GDPR is an example of this in action. While 42% say it has increased the compliance burden, the research suggests it's the absence of clear guidelines and the perceived lack of enforced execution and harmonization across borders that is driving frustrations among small businesses.

" *We've spent huge sums of time and money building our own infrastructure to comply because the EU doesn't provide a toolkit that you can just plug in. Often the rules are so unclear and badly laid out that everyone implements things differently too." - Saas, UK*

"It is nice that there are directives from the EU about certain topics, but at the end of the day you still have to make sure that you are compliant with local applications of directives. So, as an example, with GDPR there are differences between member states in how it is applied, so you have to be aware of all these differences." - Marketplace, the Netherlands

"We're building companies to a certain point and then we're hitting a ceiling because the fragmentation across Europe still exists." - Healthtech, UK

Issues around friction as it relates to harmonization have been acknowledged by policymakers, including in the European Commission's Innovation Agenda. The challenge will now be ensuring any proposed solutions take into account the specific concerns and needs of startups.

The policymaking process

Startups find that policymaking is best designed for the following types of businesses:

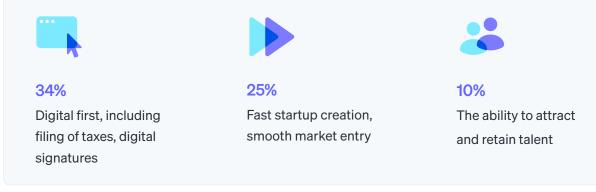|				
83%	**20%**	**15%**	**15%**	**7%**
Established companies	Early startups	Unicorns	Scaleups	None

The EU is seeking to create opportunities for startups through several initiatives to improve the regulatory environment, including its New European Innovation Agenda. However, the intended benefits are not yet being felt on the ground. Eighty-three percent of startups believe policymaking is geared toward incumbents and want policymakers to focus on changes that will save them time and money, so they can make the most of limited resources.

Only a small minority of startups (12%) believe policymakers actually understand the realities they're facing, with a perception that structures are largely designed for incumbents or established businesses (that have more resources at their disposal):

"I don't really feel like policymakers focus on startup issues. We always have the impression that the laws and regulations are made more for large groups over startups." - HR, France

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> **"** *There is a lot of talk but I'm not sure I have seen much action just yet. If startups are the growth engines of the economy and they believe innovation is coming from us, we should have a seat at the table. But our seat at the table can't be bought because startups don't have the money." - Credit Builder, UK*

"Political decision-makers are not mobilized enough around the opportunities and concerns of European and French startups. In my opinion, better consideration of the needs of startups by decision-makers could make it possible to have a regulatory framework that is simpler and more conducive to their development." - BNPL, France

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According to startups, these are the main indicators of a growth-friendly environment:

34%
Digital first, including filing of taxes, digital signatures

25%
Fast startup creation, smooth market entry

10%
The ability to attract and retain talent

Rather than calling for hallmark pieces of regulation, the needs of startups are linked to saving time and resources. Of all the practices set out in the Startup Nations Standard, startups cite digital first processes (e.g., online filing of taxes, digital signatures) as the practice that matters most (34%).

This perception that startup needs are not always considered when new policy is designed and implemented appears to be driven in part by a lack of communication: 61% are disengaged with policymakers and are not actively voicing their concerns.

As much as startups should feel the need and take the initiative to reach out to their local, national, or EU government representatives before new policies and regulations are rolled out, there is scope for policymakers to go further in consulting and engaging with startups directly:

"Make it easier for us to be involved. Lots of these things, like asking a startup to read a 200-page policy proposal and respond by answering 100 questions, require too much time. The average startup doesn't have the manpower to do that." - Credit Builder, UK

"Just consult the businesses in the EU and try to see what the implications are before you start administering new legislation." - Marketplace, the Netherlands

The role of smart policy in driving startup success

Despite the challenges in implementing and complying with new and existing legislation, startups are still bullish on the role policy can play in bringing about the conditions for new companies, ideas, and business models to thrive.

Smart policy is seen as having been integral to startup success in the Baltics and in Europe's fintech sector, in particular.

The Baltics as a case study: setting a precedent for a digital-first future

Each Baltic state has ambitious goals aiming to accelerate GDP, startup culture, and general economic wealth.

36%

The Baltic states (Estonia, Latvia, and Lithuania) are seen by startups to have the most innovative approach to regulation (spontaneously cited by 36% of respondents).

Digital government services and overall strong digital policies (e.g., e-citizenship, digital passports, digital bureaucracy, filing documents) are driving this perception, but the Baltics are also cited as having fewer bureaucratic and regulatory hurdles when it comes to building a business—a central tenet underlying what startups perceive as "smart regulation."

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"I have the impression that in countries like Lithuania and Estonia, they better understand the problems of startups." - Crypto, France

"There is a special startup visa program allowing the Baltic states to attract founders from around the world as well as digital government services and digital signatures." - Telecommunications, Lithuania

"They have digital citizenship; it is easy to set up businesses and relocate to the region. They have a mindset of making life easy (but still regulated) for companies that will generate innovation, new services, and growth." - Ecommerce, Sweden

Fintech as a case study: why PSD2 generated innovation in fintech

Smart policy is at the heart of another of Europe's most successful ecosystems: fintech. In an effort to better align payments regulation with the evolving state of technology and the market, the EU introduced the second Payments Service Directive (PSD2) to enhance payment security, promote competition and efficiency, and better protect consumers. The regulation, inspired by the UK's progressive regulation on financial services, introduced a clear, sector-specific framework that helped foster innovation in the industry and was a key driver in accelerating Europe's fintech boom (and creating EU fintech champions).

Open Banking payments enabled by PSD2 are cited by 62% of startups as an example of smart regulation they would like to see replicated elsewhere. Similarly, 70% see either SEPA or PSD2 as a big advancement—both of which are EU-driven initiatives shaping European financial services and promoting growth in the sector.

Startups want to see similar sector specific frameworks implemented across different sectors to drive competition, innovation, and ease of operation:

> *Look at online banking and how that has changed fintech in terms of the open banking protocol. I'd love to see something like that for healthcare, because financial data is also very sensitive." - Healthtech, UK*

> *Thanks to PSD2, fintech, finance, and technology work very well in Europe compared to the United States, while the United States crushes us in many areas." - Fintech, France*

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The opportunity for correction

> ## Only 20% of startups
> think Europe will be the global tech leader in the next decade.

Based on what respondents are saying, it is clear more needs to be done to reduce friction, ease the regulatory burden, and accelerate growth when market conditions improve.

Thankfully, there is still time to correct the course. Based on what users are saying in this research, it's clear that Europe can address existing blockers, improve efficiencies, foster the next generation of tech leaders, and maximize growth by taking targeted steps, including:

1. Bundling, coordinating, and implementing existing policies and initiatives designed to remove obstacles for growth and turn startups into scaleups

- There is no shortage of initiatives designed to address areas of friction for startups and scaleups, from Scale Up Europe, to the Startup Nations Standard, to the efforts being undertaken by the European Commission around the development of an innovation strategy.

- All focus should now be on relentless execution that delivers for Europe's startups, particularly as the economic environment worsens. Bringing together existing efforts should be a top priority for policymakers. To help with delivery, policymakers could create a central go-to point of contact (e.g., a commissioner for digital entrepreneurship) to address legislative roadblocks and work with member states to ensure they follow through on their commitments.

2. Harmonizing regulatory regimes, reducing friction, and maximizing growth

- Where applicable, EU initiatives and regulations should be harmonized across member states. For companies with small legal and finance departments, fragmentation presents a particular challenge and comes at an even greater cost. Implementation bodies such as the European Startup Nations Alliance which support countries around innovation in regulation and procurement (e.g., regulatory sandboxes) are a positive first step toward reaching a more harmonized regulatory environment. Sandboxes help to foster regular dialogue between regulators and startups, but to be effective in creating a single market, they will need to be mandated.

- Harmonizing regulatory regimes shouldn't just be on governments, though. Technology can help make it easier for businesses to comply with all relevant regulations in all EU countries, so policymakers and the industry should work in partnership to explore how to make it easier to use tech to comply with different sets of regulations.

3. Activating one-stop shops and providing clear, unified guidance to Europe's entrepreneurs

- Many fast-growing businesses need help with the implementation of new EU legislation across the different member states. European initiatives such as the SME test, which aims to assess the costs and benefits of policy options, and the creation of one-stop shops, are positive steps toward removing unnecessary friction—but they should be simplified and made more accessible.

- An accessible, digital-first, one-stop shop, with easy-to-use guides for startups, would show what's needed in terms of compliance based on sector, company size, and location—helping startups reduce the time (and cost) they spend on regulatory requirements.

- As well as simplifying the SME test, policymakers should consider introducing a new startup and scaleup test, assessing the costs and benefits of new policies and evaluating their benefits after implementation.

- How Stripe can support: Stripe could collect data from online businesses, focused on specific processes and requirements to complement the efforts of the EU, and to provide European policymakers with a concrete "friction log" highlighting the major pain points faced by entrepreneurs in Europe. A friction log could potentially help support the goals set out in the European Commission's Innovation Agenda to "improve existing policies with a data-driven approach."

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4. Increasing digitization of government processes involved in forming and scaling a business

- Digitized government services are mission-critical to ensuring regulation helps get earlier stage companies started, faster. While this shouldn't come at the expense of good governance standards (e.g., AML checks), the Baltic states have shown the benefits of digitizing government administration and services. As well as helping with efficiencies, The Lisbon Council has concluded that a faster digital transition also means a faster transition to "going green."

- The need to establish temporary, remote processes for businesses during COVID provided a roadmap for accelerated digital adoption. Policymakers across the EU should now ensure every interaction with government can be done digitally unless an in-person meeting is justified, while delivering on the commitment to be 'digital first' set out in the Startup Nations Standard.

- Examples of processes that can be digitalized include: conducting notary proceedings via videoconference, using an identity card with an electronic ID function and a qualified electronic signature, or digitizing the immigration and work permit system to allow for faster processing and to remove existing friction around global talent.

5. Structuring communication between startups and policymakers to ensure startup priorities and points of view are reflected in policymaking

- While the EU has taken a number of steps to engage more with startups (e.g., through the European Innovation Council or Startup Village Forum), startups need to be more directly integrated into the policymaking process in a more frequent and systematic manner.

- This could happen in the form of structured roundtable discussions organized by the European Commission, with a cross section of founders acting as an advisory board or a sounding board. This should serve as an opportunity to receive frequent and direct feedback on specific questions or policy directions the EC is considering.

- An intergroup in the European Parliament for startups and scaleups, with a clear EU pro-startup and scaleup action agenda, as per the existing intergroup for SMEs, would also help in establishing regular, ongoing dialogue.

- How Stripe can support: Stripe would be keen to collaborate with the Commission and, together with other partners from the startup ecosystem, to help convene these dialogues between startups and policymakers in Brussels and across major European cities.

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Appendix

Stripe research and recommendations are only one piece of the puzzle. Many other organizations across Europe are driving momentum on these issues and sharing recommendations on how to unlock Europe's full potential. Some examples include:

- In an effort to increase communication and reduce barriers to compliance, Coadec has called on the UK to commit more resources to the Information Commissioner's Office (ICO) to provide adequate advice to startups and businesses. To further digitization, Coadec has also pushed for progress toward "government as a platform" through the proposed release of APIs for government services.

- The Portuguese government—in partnership with 26 EU member states, Iceland, and the European Commission—has made early progress in improving clarity and communication throughout the startup life cycle, through the creation of the European Startup Nations Alliance (ESNA). ESNA is also striving to unblock some key barriers to startup growth, including enabling fast startup creation and smooth market entry, as well as being digital first with all interactions between authorities and startups being done via digital interfaces.

- The Startup Nations Standard calls for an EU-wide startup visa (and a global equivalent) that simplifies the recruitment process. Allied For Startups suggests this standard be based on existing models found in France and the Netherlands to avoid fragmentation and new complexities. A standardized EU approach would help simplify and harmonize the visa processes in different European countries, with processing times for visas currently ranging from 10 days in Spain to several weeks in other countries.

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