

# WHERE SHOULD I CREATE MY STARTUP?

A growing number of HEC alumni try to create their business in the web industry. Where should they settle? Big cities are competing to allure promising projects. “Hommes et Commerce” screened five of the most attractive startup ecosystems in the world: San Francisco, Tel Aviv, London, Paris and Berlin. Obviously, no place is perfect and there are a lot of criteria to take into account when choosing a location – not least funding capabilities, qualified workforce, entrepreneurial mindset and cost of living. This guide will hopefully help our readers hoping to launch a tech company any time soon.

Three years ago, **Alexandre Huckert (H.14)** joined Ifeelgoods, a digital reward startup located in Palo Alto, California. In the heart of Silicon Valley, he experienced the unique feeling of the energy fueling the so-called “Mecca of entrepreneurs”. “*Startups and technologies are the focus of all conversations there, wherever you go*”, he recalls. “*I could be waiting in line in a shopping center and hear someone pitching his new idea to a friend*”.

## FUNDS, FRIENDS AND FANS

The Bay Area of San Francisco remains a model for cities like New York, London and Shanghai. Many towns try to mimic its tech scene. But what does it take to be an attracting startup ecosystem? It is crucial that startups actually meet three kind of people. First, entrepreneurs should mingle with business angels and venture capitalists. Contrary to banks, these investors are willing to take risks. They assume that only a few of their portfolio companies will survive and they therefore hope for a single huge gain to overcome all losses. They also tend to invest in their own geographic area so as to help entrepreneurs in which they invested make connections. Second, the quality of a tech scene also lies on the talents it attracts. In places such as accelerators and incubators,

people can benefit from the valuable input of mentors, i.e. serial entrepreneurs and qualified experts who understand their challenges and help them choose the right direction. According to the Startup Genome report, entrepreneurs with mentors report 3.5 times more growth than those without. Last, founders should be able to meet their potential clients, be it executives from big companies or individual users. “*Paris was a perfect spot for me as I could find my early adopters: busy women that prefer to be treated at home*”, explains **Morgane L'Hostis (H.14)**, founder of the beauty service platform Pop-myday.

## NEW MINDSET

Europe is definitely well positioned in the race for attracting and creating innovative businesses. The EU can boast about some success stories with global ambition, such as Delivery Hero in Berlin, BlaBlaCar in Paris or Funding Circle in London. In the first half of 2015, capital raised by European startups rose by 86% to 6.9 billion dollars, according to Digimind. Startups in the UK account for 25% of the total amount of raised funds, but France has the highest number of fundraising operations. Startups have become trendy in France, not least among

HEC graduates – 23% of the last two promotions decided to become entrepreneurs. It is noticeable that HEC Paris developed a partnership with 42, a disruptive school for developers focused on creativity and collaboration that got rid of all traditional formalities of the French educational system. “*The important thing is how students behave, not what they know*”, sums up **Nicolas Sadirac (E.10)**, CEO of 42. That illustrates a change of mindset.

Public administration participate in the effort to boost innovation by simplifying paperwork, cutting taxes or granting aids and loans. “*In the last two years, we collected 400,000 euros in subsidies!*” points out **Nicolas Simon**, whose Paris-based company Wandercraft designs robotic legs for people with neuromuscular disorder. At Ifeelgoods, all the product research and development is carried out in the French capital, where one can find very good engineers. “*We also benefited from a government subsidy on R&D called the Crédit-impôt Recherche*”, appreciates Alexandre Huckert, who is now based in Paris. “*Young innovative companies are eligible to tax credit that can go up to 30% of research & development expenses*”.

Some governments also want to play a role in gathering forces and communicating with one voice. The TechCity UK initiative

## THE TOP 15 STARTUP ECOSYSTEMS

- |                   |               |               |
|-------------------|---------------|---------------|
| 1. Silicon Valley | 6. London     | 11. Paris     |
| 2. New York       | 7. Chicago    | 12. Sao Paulo |
| 3. Los Angeles    | 8. Seattle    | 13. Moscow    |
| 4. Boston         | 9. Berlin     | 14. Austin    |
| 5. Tel Aviv       | 10. Singapore | 15. Bangalore |

Source: "The Global Startup Ecosystem Ranking 2015" by Startup Compass, July 2015 (link: [tinyurl.com/paehw25](http://tinyurl.com/paehw25))

KOIVO / OXY Illustrations for Hommes Et Commerce Magazine

(launched in 2010) thus inspired "French Tech" in its neighboring country. *"It is a great way to unit all programs under one strong brand that foreign journalists and investors can refer to, especially during international events like the Mobile World Congress in Barcelona"*, analyses Morgane L'Hostis. A few weeks ago, the Valls administration created the "French Tech Ticket", a program for 50 non-French entrepreneur per year. Selected entrepreneurs will get a visa for France, 12,500 euros per person for 6 months and be hosted in a partner incubator.

It being said, let's get to the point: where should you create your startup? Even though Silicon Valley remains a must, your choice will vary depending on many factors, including your industry, product and target markets. Some places boast specific domains of excellence, like fintech in London, cyber security in Tel Aviv or artificial intelligence in Paris. All ecosystems have their pros and cons. Let's discover five of them. ●

STARTUPS ARE TRENDY AMONG HEC GRADUATES: 23% OF THE LAST TWO PROMOTIONS DECIDED TO BECOME ENTREPRENEURS.



Parisoma: great coworking place in San Francisco.



Y Combinator: the most prestigious – and selective – accelerator in the world.

## SILICON VALLEY, THE 'CHAMPIONS LEAGUE' OF ENTREPRENEURS

California remains the best startup ecosystem in the world. By far.

Approximately 2 million high-tech professionals currently work in Silicon Valley, an area that spreads from San Francisco to San Jose through Palo Alto and Stanford. By themselves, the "Big Three", Apple, Google and Facebook employ more than 165,000 people worldwide. But these giants should not hide the 74 "unicorns" (startups valued over 1 billion dollars) that can be found across the Atlantic Ocean. Uber and Airbnb, which are respectively worth 41 and 26 billion dollars, obviously come to mind.

### V.C. KING

"Silicon Valley has an unrivalled mix of talents and money", sums up Kittu Kolluri, a partner at New Enterprise Associates. As a matter of fact, the region captures about 45% of the top 20 VC investments and exit value, which is almost five times as much as New York or London. "After raising 600,000 euros in Paris, we moved to San Francisco in January. In less than a year, we were able to collect 2.7 million dollars in VC money" illustrates **Mathieu Lhoumeau (H.10)**, cofounder and CEO of Concord, an easy-to-use contract management platform. As a first step, the French citizen visited California last year thanks to the "Ubi I/O" program. This acceleration program created by BPI and UbiFrance enabled him to spend 3 months in the Valley to meet potential clients and even sign his first contracts.

As the global center of tech innovation, the Bay Area remains a gravitation center for international talents. Immigrants represent up to 70% of its engineers, and that ratio could be even higher if the US softened its migration policy – this year's visa cap of 85,000 was reached in one single week. As a consequence, "you are competing with the best entrepreneurs in the world. If you are just average, you won't be able to grow your business", warns Mathieu. "VCs will take the time to meet you, but it doesn't mean that they will invest in your company".

### INFLATION

With its laid-back people and Mediterranean-like weather, San Francisco is an attractive but extremely costly city. The rental price per square foot has increased by 30% since 2010, and even tripled in the most popular neighborhoods, making it the most expensive place to live in the USA. Relentless competition for skilled workers severely impacts salary costs: on average, a software engineer in San Francisco earns 150,000 dollars a year, according to HR-specialist Glassdoor. "Stats show that tech guys change company every 11 months. Competitors don't hesitate to offer a 30% rise to allure them. So it is hard to build a team", observes Mathieu Lhoumeau. To hire Champions League players, you have to pay the price.

### IN SHORT

Over 14,000 tech startups<sup>1</sup>.

3 assets of the ecosystem:

- A global magnet: more than 50% of startups are founded by immigrants.
- The highest amount of venture capital in the world.
- Experience matters: 48% of all startup employees have previously worked in another startup.

3 success stories:

- Whatsapp: an instant messaging service. The 55-people startup was purchased last year by Facebook for 22 billion dollars.
- Zenefits: an HR-service platform for small and medium-size businesses. The startup raised 500 million dollars in May, for a valuation close to 5 billion dollars.
- Slack: a chat application for companies. Founded in 2013, it is already worth 3 billion dollars.

3 must-go places for startups:

- The Embassy Network: a hotel for startups who have just moved in the Valley and want to develop new collaborations.
- Parisoma: great coworking place in San Francisco.
- Y Combinator: the most prestigious – and selective – accelerator in the world.

1. Source: Compass Global Startup Ecosystem Report, 2015.



Mathieu Lhoumeau (H.10)



Kittu Kolluri





## IN LONDON, A PACK OF ECOSYSTEMS

The so-called “Silicon Roundabout” doesn’t have the monopoly of tech startups in the City. New areas are emerging.

It is noticeable that, in London, so many startups are created by non-British people. Just take a look at some of the founders who recently achieved the highest fundraisings. Transferwise founders come from Estonia. Ismail Ahmed, who created online money transfer service WorldRemit (available in 50 countries), is originally from Somaliland. The founder of fashion site FarFetch, Jose Neves, was born in Portugal and studied in Porto. “Basically, people come from all over the world” appreciates **Robert Taylor (H.11)**, who co-founded Origin of the Barclays Techstars program, with American credit trader Raja Palaniappan who stems from MIT.

The British capital is indeed a particularly attractive city. According to EY 2014 ranking, it is the third favorite destination for entrepreneurs after San Francisco and New York City. English language is obviously a plus, but the government also plays a role in this dynamic: the “Tech City” organization sustains the development of the digital economy. “There is a big push to make the city a tech hub”, acknowledges **Nathalie Gaveau (H.99)**, founder and CEO of Shopcade. “They indirectly co-invest in early-stage companies. They foster R&D and organize innovation trips, too. For instance, Shopcade was invited to join the UKTI delegation at SXSW, a major mobile tech event in Austin, Texas”.

### EASY MONEY

Besides that, the European capital of finance is a perfect spot to raise funds. “Investors are either based here, or they come frequently, so it is quite easy to meet them”, stresses Robert Taylor. “Half of the VC funding in London stems from the United States”, adds **Michael Jackson (MBA.09)**, an American investor based in Europe. “And there is ten times more money coming from business angels (BAs) than in Paris. Some bankers invest part of their wealth in tech startups. You can raise several million dollars from BAs, which would be impossible in continental Europe”.. Taxes should also be taken into account, as capital gains are only taxed at 18% for individuals (28% for wealthy ones).

### NEW SCENES

For years, the tech industry of the City was concentrated in “Silicon Roundabout”, around Old Street (Shoreditch). But rivals are emerging all over the place: Canary Wharf is becoming a hub for fintech startups, Clerkenwell for fashion, Soho for media – not to mention Croydon in South London. The choice is yours! Just beware on one thing: “finding talented developers can be very painful, even for well-funded companies”, alerts Robert Taylor. Better be prepared.

### IN SHORT

Over 5,000 tech startups<sup>1</sup>.

3 assets of the ecosystem:

- Great diversity of talents from all over the world.
- Strong fintech industry.
- Active business angel community.

3 success stories:

- Transferwise: a peer-to-peer money transfer service valued 1 billion dollars.
- Funding Circle: a crowdfunding platform for small and medium sized businesses.
- Made.com: an online furniture retailer cofounded by **Ning Li (H.06)** and **Julien Caldele (H.07)**.

3 must-go places for startups:

- Google Campus on Old Street: free events for entrepreneurs.
- Level 39: a fintech accelerator in Canary Wharf.
- Warner Yard: a coworking space owned by the seed fund Playfair Capital.

1. Source: Compass Global Startup Ecosystem Report, 2015.



**Robert Taylor (H.11)**



**Nathalie Gaveau (H.99)**



**Michael Jackson (MBA.09)**



The Hive: an accelerator dedicated for foreigners.

## TEL AVIV, THE HEART OF THE "STARTUP NATION"

A small market, but a disruptive mindset: Israel is definitely a home for entrepreneurs.

With over 70 Israeli companies listed in NASDAQ, the Hebrew state is a prominent player in global high tech. Success stories are common place, as illustrated recently by the multi-billion exits of Mobileye, Viber and Waze. In the 2014 IMD Global Competitiveness Yearbook, Israel was considered the #1 country in the world for innovative capacity. Tel Aviv, where most startups are located, is simply the best ecosystem outside the USA, per the latest Startup Compass ranking.

### STARTUP NATION

How to explain such a performance? *"As one of the youngest countries in the world, Israel is itself a startup"*, describes **Thibault de la Baronnrière (H.09)**, cofounder and president of the think-tank Israel Institute. Founded in 1948, the Hebrew State was forced to innovate right from the beginning to take the best of its arid land and protect itself from its neighboring enemies. Israelis have forged a mentality focused on risk-taking and disrupting things, which they call "Chutzpah" – a mix of audacity and arrogance. *"People dare to try because they feel they have nothing to lose. Failure is seen as the best way to learn"*, Thibault de la Baronnrière explains. *"Israelis don't really value comfort and security. Here, everybody has a startup on the side, even my doctor"*, adds **Mickael Nadjar (H.05)**, cofounder at Costockage.

The army also plays a crucial role in this entrepreneurial vitality. The mandatory military service (3 years for men, 2 for women) creates a common background and basis of values. On top of that, Tsahal has the smallest ratio of officers to soldiers, which means that the latter are encouraged to take initiatives on the field. The most elitist bodies of the army have strong links with the startup world. For instance, 8200 EISP, a well-known accelerator in Tel Aviv, was created by some alumni of Unit 8200, the local equivalent of NSA. Based in Tel Aviv, Mickael Nadjar had the opportunity to join the accelerator. *"I met smart people, wonderful problem-solvers that don't accept 'no' as an answer"*, he recalls. *"That was the heaven of entrepreneurs I was looking for"*.

### LAND OF NEWCOMERS

With over 70 nationalities represented, Israel is definitely a country of immigrants. Two thirds of inhabitants are newcomers, or the children or grandchildren of newcomers. *"Immigrants are natural risk takers since they are willing to uproot themselves and start over"*, analyses Orit Mossinson, founder and CEO at GetYou. However, beware of language. *"You can manage it with English but if you want to grow your company and hire, you need to learn Hebrew at some point"*, warns Mickael Nadjar.



### IN SHORT

More than 4,000 startups in the Greater Tel Aviv area.

3 assets of the ecosystem:

- Highest density of startups in the world.
- Excellence in cyber security due to strong links with the army.
- Risk-oriented mentality.

3 success stories:

- Waze, a GPS app that was acquired by Google.
- Wix, a web-development platform.
- Fringefy, a visual search engine.

3 must-go places for startups:

- The Hive: an accelerator dedicated for foreigners. *"The best entry door in Israel"*.
- WeWork: great coworking spaces in Tel Aviv and Herzliya.
- Several incubators backed by the municipality of Tel Aviv.

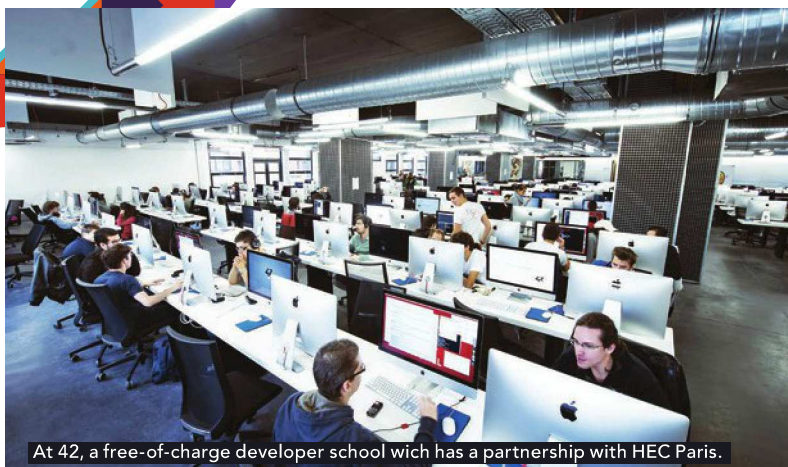


Thibault de la Baronnrière  
(H.09)



Mickael Nadjar (H.05)





At 42, a free-of-charge developer school which has a partnership with HEC Paris.

William Beaucardet



Alexandre Huckert (H.14)



Nicolas Sadirac (E.10)



Morgane L'Hostis (H.14)

## PARIS, FLAGSHIP OF THE "FRENCH TECH"

The French capital's tech scene is gaining momentum, but still needs to attract more startups from abroad.

France invented the word "entrepreneur" and seems to be rediscovering it. As many as 160 French startups came to the latest Consumer Electronic Show (CES) in Las Vegas. Over the past three years, France has been dominating the Deloitte Technology Fast 500 EMEA ranking, which spots the highest-growth tech companies. "Startups of the capital created over 4,000 jobs and generated 450 million euros of sales in 2014", boasted **Jean-Louis Missika**, the deputy mayor of Paris, last December. Some of them even grabbed the attention of prominent US-based venture capitalists like Union Square Ventures (New York) which invested in LaRucheQuiDitOui.

### SMART ENGINEERS

The French capital has long been a first-class destination for students, professionals and investors. After all, it can boast the second-largest GDP for any metropolitan region in Europe. "All decisions are made here. I could easily meet investors as well as executives from big cosmetic companies", recalls **Morgane L'Hostis (H.14)** cofounder of the on-demand beauty platform Popmyday. Another plus lies in the local education network that provides a strong base of talents, not least engineers. "Look at companies like Scalify of Docker – the technology they built is quite impressive", illustrates **Nicolas Sadirac (E.10)**, CEO of 42, a free-of-charge developer school which has a partnership with HEC Paris. No surprise that Facebook recently decided to set up an artificial intelligence lab in Paris, in connection with the Inria research institute.

Parisians willing to grow their company have the choice between 24 public and 13 private incubators. To top it off, two huge structures are about to open doors: Le Cargo (19th district) and La Halle Freyssinet (13th). The latter, expected to open next year, will host as many as 1,000 startups... Still, "it is good to have so many incubators, but if you can't raise money after the program there is no point", qualifies Morgane L'Hostis. Paris is still lacking VC firms or big tech companies that could fund Series B and C rounds. "If you have a good business and strong metrics, you will easily raise 500,000 euros. But there are few investors for the million-euro rounds", the young lady regrets. Another problem lies in the lack of diversity – only 22% of startup employees are immigrants, per Startup Compass. "Most people did the same schools and have the same reference points. Paris is building an 'internal' ecosystem. The thinking is more insular than in other big European cities", warns **Michael Jackson (M.09)**, a London-based VC. "The city should better communicate on its strengths. Foreigners are not necessarily aware of its R&D capabilities and its great subsidy programs", suggests **Alexandre Huckert (H.14)**, head of product at Ifeelgood. Time to expand the scope!

### IN SHORT

Over 2,400 active tech startups<sup>1</sup>.

3 assets of the ecosystem:

- Strong education system.
- Dense network of acceleration and incubation programs.
- Wide array of public subsidies.

3 success stories:

- BlaBlaCar: the leading website for car-sharing in Europe is valued 1.3 billion.
- Lima: after achieving a record Kickstarter campaign for its innovative storage device, the startup raised 2.5 million euros with Partech Ventures.
- iFeelgoods: the Paris- and Palo Alto-based B2B digital rewards platform recently signed a 1-billion-dollar contract with Itochu, one of the largest conglomerates in Japan.

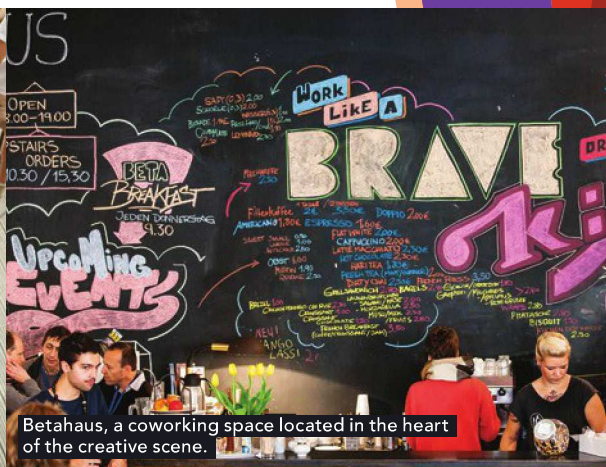
3 must-go places for startups:

- HEC Incubator (located at Remix Coworking): a 6-month mentoring program dedicated to HEC Alumni community.
- Bemyapps events (events.bemyapp.com): a good way to bootstrap a company and meet developers or potential customers.
- NUMA: a workspace and accelerator sponsored by Google, Orange and BNP Paribas. Located in Le Sentier, the main startup area of Paris.

1. Source: Compass Global Startup Ecosystem Report, 2015.



The Factory: a 1.600m<sup>2</sup> coworking space in Berlin.



Betahaus, a coworking space located in the heart of the creative scene.

## BERLIN, THE RISING STAR

The “Silicon Allee” in former East Berlin continues to gain ground, boosted by the creativity of its newcomers.

Early this year, German digital giant Rocket Internet bought a 30% stake in Delivery Hero, a four-year-old food-takeaway service which is now valued 2 billion dollars. Interestingly, both companies are located in Berlin. The German capital, which remains a second choice for traditional industries (not a single DAX-listed company is headquartered in the city), has become a very strong hub for tech startups. In the latest ranking by Startup Compass, it even outpaced Paris and Moscow. According to a McKinsey study published in 2013, Berlin startups could create more than 100,000 new jobs by the end of the decade. “For every one new business in Munich, there are 2.8 in Berlin”, the study mentioned.

### MAGNET FOR TALENTS

Located at the geographical center of Europe, the German capital initially gained a strong reputation for its nightlife and bohemian culture, in the 1990s. Former mayor Klaus Wowereit summarized the city’s creative atmosphere by a motto: “Berlin ist arm, aber sexy” (poor, but sexy). Now a wave of tech guys is changing the face of the city. “There’s a ‘can-do, will-do’ attitude combined with a ‘work-hard, play-hard’ ethos. People are creating cool stuff and having fun” said Simon Hossell, CEO of Pipe (P2P file transfer), to Mashable.com. “The town is cosmopolitan and artistic, with a great music scene. It acts as a magnet for young talents across Europe” appreciates **Alex Farcet**, cofounder of Startupbootcamp (a global accelerator program).

This positive mindset is indeed attracting a growing number of immigrants – foreigners now represent 49% of startups employees. Integration is not an issue. “Apart from paperwork, you can get along fine in Berlin without speaking German”, explains Alex Farcet. On top of that, housing is much more affordable than in other trendy capitals like Paris and London. Same thing for the workforce: according to Startup Compass, a software engineer earns 63,000 dollars a year on average, less than half of his Silicon Valley counterpart. That said, “finding qualified IT staff represents quite a challenge”, tempers **Arnt Jeschke (CEMS.98)**, a finance executive at Rocket Internet.

The only one thing this ecosystem could really envy London is funding. But not for long. Last year, Berlin-based startups managed to raise close to one billion euros. This relatively modest amount represents a year-over-year increase of... 140%\*. “Berlin is now definitely a strong option for entrepreneurs to consider” sums up Alex Farcet.

\* Source: CB Insights.

### IN SHORT

Over 2,000 active tech startups<sup>1</sup>.

3 assets of the ecosystem:

- A lively city that attracts young talents all across Europe.
- A positive mindset, prone to innovation.
- A very competitive cost of living compared to London and Paris.

3 success stories:

- Rocket Internet: after its successful IPO in Fall 2014, this “copycat” company is currently valued 5 billion euros by its market cap.
- Soundcloud: founded in Sweden, the popular music startup decided to move to Berlin to take advantage of the scene.
- Wooga: the gaming company has over 50 million players worldwide.

3 must-go places for startups:

- The Factory: a 1.600m<sup>2</sup> coworking space built inside a refurbished brewery, sponsored by Google.
- Betahaus: 200 people work in this coworking space located in the heart of the creative scene.
- Sankt Oberholz: this coffee shop is a famous meeting point for entrepreneurs.

1. Source: Compass Global Startup Ecosystem Report, 2015.



Alex Farcet



Arnt Jeschke (CEMS.98)