Germany is an increasingly attractive location for digital start-ups due to affordable rents, a thriving tech ecosystem, incentive schemes and access to the single market. Now crowned the start-up capital of Europe, Berlin has reputation as a cool city for young and aspirational creatives and entrepreneurs, which helps it to attract global investment into businesses such as Factory Berlin, a technology co-working facility that houses tech giants such as SoundCloud, Twitter and Uber.
Digital entrepreneurs are flocking to Germany’s cities, attracted by the availability of talent, affordability and the ever-expanding ecosystems. *Markets Germany* takes the pulse of the start-up scene, with a focus on Berlin, Hamburg and Munich.

**Move over, London!** Germany is positioning itself to become Europe’s nerve center for digital start-ups, with Berlin, Hamburg and Munich competing to entice foreign entrepreneurs and investors to their riverbanks – along with other cities like Frankfurt and Dortmund.

When Germany took over the G20 presidency in December, Sigmar Gabriel, then head of the Federal Ministry for Economic Affairs and Energy (BMWi), signaled that it would be taking a global lead on digitalization. A month before, BMWi unveiled its Digital Hub Initiative (de:hub), an agency tasked with facilitating co-operation between start-ups, academia, SMEs and industry, to promote digital transformation.

There has never been a better climate for tech start-ups to come to Germany. Affordable rents, a thriving tech business ecosystem – from coding through to 360˚ drones – the availability of incentive schemes and access to the single market have all contributed to the shift towards mainland Europe.

**Berlin versus London**

In 2015, Berlin earned itself the title of “start-up capital of Europe” in the Ernst & Young (EY) “Start-Up Barometer” survey, as for the first time investment capital in the city (totaling €2.2bn) overtook that in London. This rapid growth was largely driven by the über-productive incubator Rocket Internet. But last year Berlin slipped back into fourth place with total investments of just €1.1bn. Start-up financing across Germany as a whole dropped by 30 per cent (–11 per cent
across Europe), due to the absence of deals in excess of €100m; whereas in 2015 there had been eight such deals.

The EY report’s author, Peter Lennartz, notes that annual fluctuations in financing are not a reliable indicator of the health of Germany’s start-up scene. “The number of medium-sized deals is more indicative of the strength of Germany as a start-up location,” he says. And the number of companies that received between €5m and €50m rose from 81 (year 2015) to 116 (year 2016). “The more start-ups and the more funding is made in the field of seed, the greater the chance that a higher number of start-ups will be able to develop into successful medium-sized companies or even unicorns in the future.”

For venture capitalist Michael Brehm, CEO of Redstone Capital, which focuses on seed and first-stage funding, Berlin is still the best place to launch and scale a business. He explains: “You have access to the largest market in Europe. In Silicon Valley the costs are so much higher, and new companies can’t compete for the skills. Also people are insecure about Britain now.” Global tech investor Klaus Hommels recently put €1m into Factory Berlin, a technology club that houses SoundCloud, Twitter and Uber among others.

When it comes to diversity and idea innovation, Berlin appears to have the edge over Germany’s traditional commercial hubs: 90 per cent of its start-ups are working on new products and services. It has the added cachet of being a cool city for young creatives and entrepreneurs to live in, with a local target market of aspirational thirty-somethings. Of Berlin’s founders, 94 per cent consider their city to be the best location in Germany. For B2C start-up stars like SoundCloud, Go Euro and Delivery Hero, which all have foreign founders, this made Berlin the ideal location. Delivery Hero, the food ordering service founded by Swedish entrepreneur Niklas Östberg, which has 1,000 employees at its headquarters, cites the “progressive” attitude of Berliners, the cost of living and the “execute quickly mind-set” as the ideal conditions for a successful working environment.

“Berlin has a very vibrant start-up ecosystem,” says Stefan Franzke of Berlin Partner for Business and Technology, Berlin’s business development organization. “There are 6,000 tech companies here with innovative and scalable business models. They are here typically because they want to address the German and European market, but we also have a program called Start Alliance Berlin which helps them find routes into the U.S. and Asian markets.”

For Franzke, the advantages of his city are clear: “Firstly, you can use English everywhere. Then we have an ecosystem which is focused on start-ups – there are simply more service providers here. It is also easy to raise money: last year more than €1bn in venture capital was raised by Berlin start-ups.”

### Berlin leads in B2C

The bulk of this funding went to e-commerce, financial technology (FinTech) and big data companies, mainly at second or third round, but the growth in seed capital is coming from new sectors like augmented and virtual reality solutions, InsurTech, property tech and the Internet of Things (IoT), according to Brehm. The new funding trends across Germany, by way of comparison, are energy, transport and health, according to EY.

“Tech start-ups come to Berlin because they want to get in with the likes of Siemens, Microsoft and Zalando,” says Franzke. “But

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### 94.6 per cent of start-ups in Germany allow staff to wear hoodies.

Source: Deutscher Startup Monitor

### FACTS & FIGURES

<table>
<thead>
<tr>
<th>Geographic spread of start-ups in Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berlin</td>
</tr>
<tr>
<td>Rhine-Ruhr region</td>
</tr>
<tr>
<td>Stuttgart region</td>
</tr>
<tr>
<td>Munich</td>
</tr>
<tr>
<td>Hannover region</td>
</tr>
<tr>
<td>Hamburg</td>
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</tbody>
</table>

Source: Deutscher Startup Monitor
the attraction also works the other way – es-
established industry needs to digitalize and
evolve. Many major businesses are now set-
ting up their innovation centers here – for ex-
ample, Würth or Cisco,” Berlin’s talent base is
the lifeblood of its commercial renaissance.
Every year 200,000 people come to Berlin,
70 per cent with advanced degrees. “We at-
ttract talent from 180 different countries; in
fact nearly 50 per cent of the start-up work-
force comes from abroad,” says Franzke. The
challenge is finding enough of the right skills:
“We really need more software engineers.”

**Workforce incentives**
To this end, the government and private sec-
tor are working together to feed more talent
through Berlin’s universities. In the next
year, new positions for 50 professors will be
funded, focused on IT, data analytics and In-
dustry 4.0. Unsurprisingly, many start-ups
have clustered around the universities in the
Berlin-Brandenburg area.

Central government has also stream-
lined business immigration to help compa-
nies which import IT expertise from Eastern
Europe. It is now relatively easy to obtain a
blue card and not just for those with incomes
in excess of €50,000. The availability of pro-
grammers is a key issue for digital companies.
Here’s where Berlin has directly benefited
from Brexit. “London start-ups that use em-
ployees from Europe now have a big problem
because they don’t know how the situation
will play out,” says Franzke. “Also investors
won’t want to invest in a start-up if they know
they might not be able to do business with
Europe in two years.” The digital refugees
from Britain have already started arriving; last
year Brickvest, a property investment app,
opened an office in Berlin to limit their expo-
sure in the event of a hard Brexit. If Britain los-
es access to the single market, the firm’s Lon-
don headquarters would be downgraded to a
regional office. More companies may follow.

**Munich: The hidden champion**
When it comes to digital start-ups, Berlin
might be pre-eminent but Munich has a
longer and perhaps more impressive CV. In
2014 the Bavarian capital was designated→

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**FACTS & FIGURES**

**Venture capital investment in Germany**

<table>
<thead>
<tr>
<th>Region</th>
<th>Investment (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berlin</td>
<td>1,072</td>
</tr>
<tr>
<td>Bavaria</td>
<td>527</td>
</tr>
<tr>
<td>North Rhine-Westphalia</td>
<td>141</td>
</tr>
<tr>
<td>Hamburg</td>
<td>127</td>
</tr>
</tbody>
</table>

**Industries in which German start-ups operate**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT/Software</td>
<td>15%</td>
</tr>
<tr>
<td>Software-as-a-Service</td>
<td>10.2%</td>
</tr>
<tr>
<td>Manufacturing/Hardware</td>
<td>8.9%</td>
</tr>
<tr>
<td>E-commerce</td>
<td>8.7%</td>
</tr>
<tr>
<td>Mobile/Web applications</td>
<td>6%</td>
</tr>
<tr>
<td>Bio, nano and medical technology</td>
<td>5.4%</td>
</tr>
<tr>
<td>Online marketplaces</td>
<td>5.3%</td>
</tr>
<tr>
<td>Rest</td>
<td>rest</td>
</tr>
</tbody>
</table>

**Entrepreneurs’ nationality**

<table>
<thead>
<tr>
<th>Location</th>
<th>German</th>
<th>Other EU Countries</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>All of Germany</td>
<td>92%</td>
<td>3.8%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Munich</td>
<td>85%</td>
<td>8.8%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Berlin</td>
<td>87.9%</td>
<td>5.7%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Hamburg</td>
<td>94.3%</td>
<td>1.4%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

**German start-ups’ future business prospects (2016)**

<table>
<thead>
<tr>
<th>Status</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better</td>
<td>72.9%</td>
</tr>
<tr>
<td>Unchanged</td>
<td>24.5%</td>
</tr>
<tr>
<td>Worse</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

1 Source: EY, 2 Source: Deutscher Startup Monitor
Bangalore-born Naren Shaam was backpacking across Europe in 2010 when he had the idea of creating a centralized booking platform for bus, trains and flights. He quit his job in financial services in New York and moved to Berlin to set up Go Euro, now Europe’s largest transport platform with 10m users per month.

Why did you choose Berlin as your base in Europe?
The European start-up hubs that were the most famous at the time were London, Stockholm and Berlin. Berlin is the most central and has a better cost of labor than London. It was a rational choice. I needed a large engineering base, the ability to attract talent at affordable prices from Eastern Europe and to be able to scale fast. We are 60 per cent engineers now.

What are the main strengths and weaknesses of Berlin as a start-up hub?
For small start-ups who have no real idea of how to build a large company, the ecosystem in Berlin is great, but two things have to happen to grow it. First: access to more senior talent who can scale businesses. I want Berlin to produce the million- or even billion-dollar companies that come out of London or Stockholm. Second: more small exits in the second and third years to allow capital back into the system.

Did you have any preconceptions about Germany before coming here?
The general image of Germany is one of a very organized country with an efficient and productive population. Berlin is a melting pot, known for diversity and freedom, for the music and the art scene and recently for the strong tech environment.

Since moving here, have your views about Germany changed?
I was expecting some obstacles, especially for a non-German speaker, like opening a bank account. Instead, Germany and Berlin welcomed me very well. It is my home now.

How does the working culture differ from New York or London?
I have lived in New York and it is more competitive, fast-paced and with crazier working hours. Both cities are extremely diverse, multicultural and offer access to anything you are looking for. The extra advantage of Berlin compared to London and New York is that there is a higher quality of life here.

What do you like about living and working in Germany?
I very much appreciate the alternative and international vibe of its capital, standing on the backbone of a strong German economy. Given the political wildness that is happening in the world, I also find security in the leader of the country I live in today.

What do you take pride in?
We are extremely diverse, reflecting that the decision-makers in families are women. We have over 200 employees from 40 countries, and 46 per cent are women.

What are your plans for 2017?
I hope we will have most of Europe covered in the next couple of years. Longer term, I hope I can bring to this industry the simplicity of some of the products that Amazon and Google have provided.
Europe’s number one internet communications technology hub by the European Commission, and it has a global reputation as a leading cluster for IoT.

Attracted by the high level of specialist talent produced by the Technical University of Munich (TUM), U.S. giants Microsoft, Intel and IBM are investing heavily in their Munich outposts (IBM is setting up a global development center for IoT there). “We have a very elaborate ecosystem which combines academic centers for technical innovation, big business, SMEs, start-ups and incubators,” explains Rita Roider at the city’s department of labor and economic development.

The wide range of entrepreneurship schemes at the TUM, the University of Munich and Ludwig-Maximilians University are driving some of Germany’s most successful start-ups, such as Navvis, an interior digital mapping company. Konux, another TUM spin-off, received a $7.5m (€7m) investment from Silicon Valley for its technology which monitors the condition of machines.

Munich for B2B
Munich’s natural advantage is its industrial landscape, especially the automobile, aerospace, medical technology and plant construction sectors. If your target customers are Siemens, BMW, Audi or Bosch, then Bavaria is a logical location. Several corporations have their own incubators here, including Siemens Next 47, BMW Startup Garage and the broadcaster Pro7 (for innovative digital media). There are also 25 incubators and accelerators in the area.

Munich cannot compete with Berlin on the number of funded start-ups (last year 56 from Munich received risk capital, compared to 220 from Berlin, according to EY), but it can boast the highest percentage of foreign entrepreneurs (15.1 per cent) of any German city and the highest average number of employees per start-up (31.1 compared to Berlin’s 28.1). “Because we have global players, we have a very international workforce and lots of foreign students,” says Roider.

The Hamburg scene
With an enterprise birth rate of 2.36 per cent, Hamburg competes with Munich to be Germany’s second-biggest digital hub. Former graduates from the scene include Xing, the social network for professional contacts with 10.1m users, Jimdo (website construction kit), Mytaxi and ground-breaking gaming studios Bigpoint, Goodgame and Innogames. “Numerous digital businesses have become large and profitable here,” says the First Mayor of Hamburg Olaf Scholz. He cites the city’s proximity to a modern port and to several influential media companies as well as a developed public funding structure as just some of the reasons why start-ups can thrive. It is no idle boast. There are 23,000 media and IT businesses in Hamburg, including the main operations centers of Google, Facebook, Twitter, Hootsuite and Yelp, which makes it one of Europe’s leading content locations.

“Our start-up scene is changing,” says Sina Gritzuhn, managing director of Hamburg Start-ups. “Five years ago gaming and media companies were leading innovations here, but now FinTech is the biggest growth area. Last year 70-80 per cent of the capital raised by start-ups was invested in FinTech companies. Stand-out examples are Kreditech, which raised €82.5m in 2015, and Finanztcheck, which raised €33m in 2016.

Despite grossing the highest rounds of funding, FinTech still only accounted for 4 per cent of the start-up scene in 2016, according to Hamburg Start-up Monitor, a platform which provides market analysis about the regional scene and which has 600 start-ups on its database. Commerce is still by far the largest sector, accounting for 25 per cent of businesses in 2016, followed by the service sector at 19 per cent, media at 15 per cent and IT at 12 per cent.

Gritzuhn is mindful that Hamburg needs to be “more open for venture capital” in order to compete with Berlin, but believes the city’s strongest advantage is its well-established and stable industry. “Aircraft manufacturer Airbus is based here, as are large digital companies such as Facebook, Dropbox and Twitter, and therefore start-ups that would like to provide services to these companies have a better chance of networking with them,” she asserts.

Hamburg is home to the main European operations centers of Google, Facebook, Twitter and Yelp.

Conclusion: Favorable environment
Germany offers a very favorable environment to grow in. For tech companies that need a base in the heart of the EU, Germany is now the obvious choice. The founders’ main dilemma will be which city to choose. The local ecosystem and workforce, proximity to strategic partners, access to research facilities, availability of capital and incentive schemes, transport links, and the outstanding quality of living are all key factors to consider.

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Source: Deutscher Startup Monitor